Appendix 2

Budget Monitoring Sub-Committee – 24 March 2015

Transcript of Item 6 – Managing Revenue Risks

John Biggs AM (Chairman): Now we are on to managing revenue risk, which is probably the most exciting topic that this Sub-Committee will ever deal with. We have our star philosophers here, Martin Clarke and David Gallie, who are going to entertain us on this riveting subject. It is a pretty important subject.

Martin Clarke (Executive Director – Resources, GLA): For a couple of hours.

John Biggs AM (Chairman): A couple of hours at least.

Tom Copley AM: It is more interesting than it sounds.

John Biggs AM (Chairman): That is not difficult though.

Tom Copley AM: I am trying to be optimistic.

John Biggs AM (Chairman): We are talking about three or four topic, but we are going to start by asking you about the Council Tax. The context of all of this, of course, is that the Government - it is very interesting - has devolved bits of things to us, to a lesser extent maybe than Manchester, but we are all excited about devolution. As someone once said, "You should always look a gift horse in the mouth, because there are sometimes downsides to what is ostensibly greater power in terms of resources." I think that Martin is the sort of boss, but David is the expert, is that right?

David Gallie (Assistant Director, Group Finance, GLA): Yes.

Martin Clarke (Executive Director, Resources, GLA): Correct.

John Biggs AM (Chairman): There we are. We will direct these primarily to David, then Martin can correct him as we go along. Is that all right? We will start with Council Tax. Tell us then why income from Council Tax is going to be higher than previously expected in 2015/16.

David Gallie (Assistant Director, Group Finance, GLA): There are two aspects to Council Tax forecasts. There is Council Tax buoyancy - the increase in the Council Tax base - and there is the collection fund surplus, which is effectively a catch-up measure that boroughs have to make on whatever income they collect. Broadly speaking, the difference between 2014/15 and 2015/16 Council Tax forecasts is about £50 million, with a £25 million increase on both buoyancy and the surpluses compared with what we had previously assumed in the budget. It is really quite difficult to get to the bottom of why those numbers are a lot higher, but one of the things that is apparent from more anecdotal evidence is that boroughs seem to be more successful in collecting Council Tax benefit from the poorest members of their communities than they previously were under regimes such as poll tax. So a lot of the issue is that boroughs perhaps took an over-prudent view of the income they could collect from those poorest clients.

Another factor obviously is that there is an increase in the number of hereditaments in London arising from buildings being put up in say Newham and other boroughs, which has actually boosted the base. That obviously would feed through to the absolute numbers. We are limited actually in the data that we have to analyse. For instance, the surplus figures from boroughs literally are just for a net number at the end, rather than a detailed analysis as to why there is such a high level of increase. There are limitations on how much we can really get to the bottom of why those numbers are stronger than we had assumed.

John Biggs AM (Chairman): That is quite a risky position to be in then, if we do not know why it has happened.

David Gallie (Assistant Director, Group Finance, GLA): True, although on Council Tax base, pre- the regime change on Council Tax benefit, there had been a fairly solid trend of a 1% increase in Council Tax base each year, albeit that the Council Tax surpluses were a much lower level than we currently have. There is some confidence you can have that the Council Tax base will remain buoyant and has remained buoyant. It is not subject to the same degree of volatility as business rates, which are much more susceptible to an economic cycle, although obviously it is in the gift of Governments in the future to potentially revalue Council Tax, of course, which may then have higher levels of volatility.

There is a limitation on boroughs' data, and also because we are consolidating 33 boroughs' returns, and each borough's position is obviously different and is subject to a different set of assumptions from their treasurer - looking at what they can collect, their success in collecting - it is quite hard to generalise about why in London overall the buoyancy remains high.

John Biggs AM (Chairman): Growth in property numbers, that is the easiest bit to understand, I suppose. Collection rates from poorer Londoners, and essentially the Government said whereas in the past you might have 100% Council Tax benefit, in future you are going to get 90% and so poorer Londoners would either default and not pay those sums or they would pinch themselves and pay up, and a higher proportion are meeting the costs than was expected, yes?

David Gallie (Assistant Director, Group Finance, GLA): Or that the assumptions that boroughs had made have proven to be overly-conservative compared with what boroughs have actually genuinely been able to collect and the cost of Council Tax benefit.

John Biggs AM (Chairman): Right, and I know that there was a transitional period and some boroughs have had a strategy for meeting some of that shortfall. They were required to protect pensioners and those with disabilities, I think, so that meant a bigger burden of the savings potentially on all other claimants. Some have used some of their general funds to help meet that shortfall, although I would assume that that is running out now, because boroughs who are under enormous pressure will be looking for areas of savings. Do you have a sense of that?

David Gallie (Assistant Director, Group Finance, GLA): I do not have the detail to hand of each borough's scheme. I suspect different boroughs have taken different views on the extent to which they will be removing their general fund support for schemes that they previously introduced. I guess there was a tendency probably to sharpen those as pressures mount, but obviously you also have boroughs, say Kensington and Chelsea (K&C), which effectively have paid for the 10% from the number of second homes they have. Boroughs are in very different circumstances, but we could certainly reply to you in more detail about individual borough schemes and as to how they have changed.

John Biggs AM (Chairman): City Hall, as a preceptor, has no influence over those individual borough strategies?

David Gallie (Assistant Director, Group Finance, GLA): We are required to be consulted about borough schemes, but effectively it is a borough decision.

John Biggs AM (Chairman): Right, and we do not make strenuous representations. We sit down with borough treasurers, presumably, and talk about these issues?

David Gallie (Assistant Director, Group Finance, GLA): Certainly Martin [Clarke] and the Society of London Treasurers (SLT) would have regular conversations around boroughs on these issues.

John Biggs AM (Chairman): The SLT, that is, a well-known organisation.

Martin Clarke (Executive Director, Resources, GLA): What was quite interesting is there is lots of different schemes out there.

John Biggs AM (Chairman): Where is the Council Tax base growing fastest in London? Is it the obvious places? Do we have ideas of where it is going to grow in future?

David Gallie (Assistant Director, Group Finance, GLA): Yes, the top authorities have actually increased tax bases of over 5%: Newham at 6.8%, Lambeth 6.1%, Haringey 5.5%, Barking 5.2% and Hackney 5.2%. The sort of top boroughs are tending to be those that are probably the most economically deprived or have the highest percentage of Council Tax claimants compared with, say, at the lower end of the table, K&C, Richmond, Westminster, the City, where there is broadly about a 1% increase in the tax base.

John Biggs AM (Chairman): We have got an overall assumption of 1%, but presumably we do a bit of work of where we anticipate growth in the future or do we not?

David Gallie (Assistant Director, Group Finance, GLA): We tend to just effectively consolidate the borough returns, rather than looking at diagnosing individual borough returns to actually be more sophisticated. Essentially we are in the hands of the Chief Finance Officers' returns and clearly they are making different assumptions. There is not a consistent approach to assumptions about collection, so it would be hard to generalise up from an individual borough's circumstances.

John Biggs AM (Chairman): Indeed, if a borough was to base its projections on planning permissions, you cannot guarantee they are actually going to be built, can you?

David Gallie (Assistant Director, Group Finance, GLA): The Council Tax base return is based on a starting point of the Valuation Office Agency's numbers, so it is an objective start rather than prospective planning permissions that might be given.

John Biggs AM (Chairman): Going back to those exciting meetings that Martin [Clarke] attends with the SLT --

James Cleverly AM: Boozy affairs.

John Biggs AM (Chairman): Very boozy. Apparently, according to James there, primarily driven by alcohol. Anyway I think that that is unlikely, actually. They are treasurers, after all, and they would spend hours arguing about who was going to pay for it. That was a very poor joke, by the way.

John Biggs AM (Chairman): They get the European Union to pay their bills, do they not? Let us not dwell on that. How are they improving their predictions of Council Tax income or do they not worry, they just say --

Martin Clarke (Executive Director, Resources, GLA): They have to take it through a formal public decision-making process, so most tax bases are going to be ultimately approved by the full [Local] Authority, go through cabinet, so for them it is a very public part of the process, putting reports up, showing the basis for their estimates. Then what you have at the year-end is the actuals for getting the recorded accounts then audited. All the information is there, but in a way you are dealing with 33 different circumstances.

David Gallie (Assistant Director, Group Finance, GLA): Just to add, what you can see is an improvement which is related to my answer to your first question. Why the sum is so much higher is because Treasurers are now more confident about the level of Council Tax base arising from the new regime. So you have seen the numbers coming through that allows a higher figure. There has been an improvement by the original assumptions being revised upwards.

John Biggs AM (Chairman): Do you have a sense whether this increased income is simply a bounce or a one-off or it is going to continue?

David Gallie (Assistant Director, Group Finance, GLA): It is extremely difficult, but what you could say is there has been a correction from the perhaps overly-prudent original assumptions of Council Tax benefit support being collected, which has now stabilised. We are now in year 3 of the new regime, so we probably have had a bump up. The big increases that we have had in the Council Tax base of 3.1% this year and the collection fund surplus increase of £30 million as a one-off, suggests that we have got a higher base level. This then suggests that perhaps in the future we will then be reverting more to the norm of the 1% increase in Council Tax base that was evident in the old regime and perhaps again much lower levels of collection fund surplus. Ten years ago the collection fund surplus was probably a tenth of the figure we had at 31 March 2015.

John Biggs AM (Chairman): Someone told me at a very exciting event - it might have been a fringe meeting of the SLT; and that mention before that was another attempt at humour.

Tom Copley AM: Keep trying.

John Biggs AM (Chairman): Keep trying, yes. Tom Copley said, "Keep trying" and that the transcriber is saying, "For goodness sake, get on with the meeting." They said that there was a strange coincidence between these increased income levels and the electoral cycle. Can you tell us anything about that?

Martin Clarke (Executive Director, Resources, GLA): The old regime, there seemed to be some correlation, but what you have had this time under this new regime, no correlation at all.

John Biggs AM (Chairman): OK. In the old days they would look under the mattress and find more money in election year?

Martin Clarke (Executive Director, Resources, GLA): Yes, if you look back the previous 12 years, higher surpluses seem to coincide at the aggregate level in London in a certain point in the electoral cycle and a sort of catch-up thereafter.

John Biggs AM (Chairman): I do not know whether that is a good or a bad thing.

Martin Clarke (Executive Director, Resources, GLA): In a way, I do not think it made too much difference, because the actual scale of the numbers, as David just said, was a tenth of the increase we have had this time.

David Gallie (Assistant Director, Group Finance, GLA): Just to amplify that, so at 31 March 2014, which you would think would be the obvious point for an electoral calculation to come in, the collection fund surplus was £15 million, but a year later, the surplus declared is twice that level, over £30 million.

John Biggs AM (Chairman): OK.

Martin Clarke (Executive Director, Resources, GLA): We have shot that cloud or whatever the right thing is.

John Biggs AM (Chairman): Or it shot itself, yes.

Martin Clarke (Executive Director, Resources, GLA): Shot itself.

John Biggs AM (Chairman): Business rates, shall we move on to that? This is still me, is it not? Yes, it never ends. Business rates are a bit more complicated, partly because of the revaluation cycle, but all sorts of other reasons as well. Business rates was a pretty obvious gift horse, where we thought it was going to be payday and we were going to guarantee increased income from growth and it has not happened like that. What are the latest projections for retained business rates income for 2014/15 and 2015/16?

David Gallie (Assistant Director, Group Finance, GLA): The business rates forecast for 2015/16 is 3.5%, made up of an inflation element of 2.3% and real terms growth of 1.2%. Perhaps I can just take issue with one of the points in your question. What has been established, and certainly what GLA Economics have said is that going back to 2001/02 there has been a 1% real terms growth in business rates since that period on average.

John Biggs AM (Chairman): Per annum?

David Gallie (Assistant Director, Group Finance, GLA): Per annum, so that devolution does allow us the benefit of that real terms growth. However, clearly there has been a degree of volatility. In our first year of retained business rates, we had a variation of £80 million. So the best part of an 8% variance on the tax base of retained business rates between the original and the actual collected sums. So we have then had a process of recovering that year 1 deficit. We are anticipating in this financial year we will come clear and actually then go into surplus, where we will reap the benefit hopefully of the real terms growth coming through.

John Biggs AM (Chairman): There are two cycles going on there, I think. Maybe it is the same cycle. There is the revaluation, and the revaluation happens from time to time and wherever the property market is at that time, the revaluation values properties at that level, and then there is an economic cycle which goes in whatever direction it does. It means that people are found holding assets which are worth less than they would value them, so they appeal and you have a tailing off, but presumably if you have a boom, it goes back up again. That creates enormous instability, does it not? I heard a briefing recently that we are reaching the tail of the last valuation period and we are both anticipating and placed in some uncertainty by the next revaluation, which will be due when?

David Gallie (Assistant Director, Group Finance, GLA): The next revaluation point will be virtually in a week's time, but will come through - subject to any Government decision - two years later in 2017. The comparison to be made is now to compare with 2008, at a point when the property bubble had effectively burst. Intuitively - and obviously it does depend on the regional differences - one would assume that London would gain quite substantially from a 2008 to 2015 valuation. However, clearly we are in the gift of that revaluation coming through. The Government have issued a consultation about business rates that could fundamentally change the basis of business rates. So the degree of uncertainty that would come from changing the basis of the regime is really endemic, on top of the natural processes of a revaluation coinciding or not coinciding with economic cycles.

John Biggs AM (Chairman): Something that would make life easier would be if the Valuation Office Agency got a move on with considering appeals, yes?

David Gallie (Assistant Director, Group Finance, GLA): Indeed. The Government committed to have 95% of valuation appeals sorted by September of this year. As at the end of last year, 80% was the national figure. We do not have a figure for London, unfortunately, and I suspect the London appeals will be a lower figure than the 80%, given the complexity of the appeals process in London. We will see how they get on with that September target. But there are clear issues for us around the valuation process. It feels that it has almost becomes an endemic problem to anticipate and forecast retained business rates. As and when we will exhaust this valuation process we will then be into a revaluation, so almost it is like the 'painting the Forth Bridge' problem. Where once we get through the appeals process timeline, we are then into a whole new regime of a valuation and then a new appeals process then starting up.

John Biggs AM (Chairman): Leaving aside any other requirements of the Government in a review of business rates, it would be pretty helpful from our point of view if such a review was to lead to a greater certainty on income and its relationship to growth and hopefully insulation from contraction as well.

David Gallie (Assistant Director, Group Finance, GLA): It also would be lovely from a narrow financial forecasting angle. But clearly there is a very good reason why there is an appeals process. This ensures equity for businesses and that is a clear part of the legitimacy of the regime. Although it would be nice, and it would make my job a lot easier, clearly there needs to be a set of checks and balances on a valuation process.

John Biggs AM (Chairman): Obviously back in the mists of time, the principle existed that local government, whether it is City Hall or the boroughs, was incentivised to encourage business growth in its areas, and through that to gain business rate income.

David Gallie (Assistant Director, Group Finance, GLA): Which is where we are now.

John Biggs AM (Chairman): Just finally then, for the record, I recall there are four or five London boroughs that provide something like 60% or 70% of our business rates income.

David Gallie (Assistant Director, Group Finance, GLA): Yes, six authorities account for nearly 75%: Westminster, the City, Hammersmith, Southwark and Tower Hamlets and Hillingdon.

John Biggs AM (Chairman): With Heathrow and the Thames Valley. OK, that is exceptionally useful. I am going to shut up now - probably cannot stop me - but Resilience Reserve.

James Cleverly AM: The Mayor's Resilience Reserve is seemingly more resilient than anticipated. Can you just give us a brief explanation as to why that is?

David Gallie (Assistant Director, Group Finance, GLA): The Resilience Reserve is estimated to be £63 million as at March 2015 and we anticipate that it will go up to about £115 million in a year's time. The principal reason for that increase is the sums we discussed earlier on the buoyancy of Council Tax and retained business rates. Essentially the view that the Mayor ultimately has taken around the level of the Reserve reflects the worries about the volatility of business rates. -So again, just to go back to the issue, we had an £80 million difference between budgets and actual that has come through in year 1. So there is a feeling that this could readily occur again. Rather than have the process we have of three years of recovery to get us back to a neutral position because of business rates growth, we need to have a provision for that sum of money in case that eventuality then reoccurs.

The other dimensions to the growth in the Mayor's Resilience Reserve are ensuring that the Mayor can deliver the Council Tax reduction strategy of 10% over this administration and continuing a level of support to the functional bodies. Principally this is to London Fire and Emergency Planning Authority (LFEPA), but also it guarantees levels of funding to MOPAC and within the GLA as well to avoid a situation where the authority is in a position of having to make further cuts or increase the precept again to then recover that situation.

James Cleverly AM: The size of the reserve has been dictated, to an extent, by circumstance. Its existence is there for a specific reason, but the quantum within it has been driven by the circumstances around rate growth, yes?

David Gallie (Assistant Director, Group Finance, GLA): We have been able to make those provisions because of the growth in the Council Tax buoyancy and retained business rates. But the logic of why those sums have been deployed as they have been in the reserve rather than being used for alternative purposes comes back to a worry about the volatility reoccurring on those tax bases and then the protections to functional bodies.

James Cleverly AM: There is a formula which allocates money to the reserve which has been followed, and the quantum within the reserve is a by-product of that formula rather than a projection of its future utility. Is that fair to say?

Martin Clarke (Executive Director, Resources, GLA): We had to create this reserve from scratch, so what we've done, in a way, is put in all the surpluses that have accrued over and above, that was in our sort of planning assumptions. You could say then in year two, we probably just need to carry on with that sort of approach, while we eliminate the initial deficit. It was not planned to get to that level, but we just knew we had to get sufficient cover to be booked in the reserve and then deal with volatility. I do not think we will get in a position where we will have planned where we wanted to land in sort of three, four years' time until we get the track record of what is this new regime, are we just dealing with initial volatility issues? However until we know it is settling down, I do not think we will do any longer-term financial planning based on, "We want this reserve at this level at that point in time." Going back to your original point, the balance is more driven by circumstances at the moment.

James Cleverly AM: That has taken me where I was trying to work out. This is allocated to offset volatility?

Martin Clarke (Executive Director, Resources, GLA): Yes.

James Cleverly AM: The scale and duration of that volatility we do not know because we are into a new regime, so we do not know whether this is an initial hump which will settle down, or whether there will be a cyclical thing or whatever. The Mayor has allocated this reserve to even out potential peaks and troughs, which are as yet unknown and we do not have a pattern for that. Are we going to keep building that reserve up until the point where we have got enough track record to go, "OK, we can now see a pattern, and therefore we know that we can cap it at this level" or is it going to grow indefinitely or is it going to get to a point where it is so big, it is embarrassing, that we start then siphoning money off to do something else with? What is the plan?

Martin Clarke (Executive Director, Resources, GLA): The end of 2016 forecast, at the moment I foresee that to be the maximum. The caveat is that is taking all the borough forecasts as accepted and not building in any provision for downsize. The reserve then comes down, because it gets applied for the two main purposes. Under the Mayor's current commitments, it is precept reduction strategy, so that will come out of the Mayor's Resilience Reverse and provide the ongoing extra funding for LFEPA and, as David said, to keep the guarantee, you could say, to MOPAC at least the level of Council Tax income. We think it peaks at that level and then will drop down.

James Cleverly AM: This reserve is pretty explicitly tied to the mayoral commitments of this Mayor, which are both time-limited, which is the Council Tax reduction up until the end of the budget period over which he has control and the income guarantee to LFEPA. The last budget he sets is the one where both the Council Tax aspiration and the financial protection to LFEPA elapse, so the position is at that point that the two primary function reserves will have been discharged and therefore it is not seen as an enduring vehicle or --

Martin Clarke (Executive Director, Resources, GLA): You will need a base level, which we will be in a good position to assess, to manage the risk, the volatility there is in the Council Tax, but more importantly, the business rate regime, unless the new mayoralty has some new commitments that he needs to manage. There will be a base level we require.

James Cleverly AM: Is there a kind of 'finger in the wind' figure that you think would give you a degree of comfort?

Martin Clarke (Executive Director, Resources, GLA): If you were going to just judge it on the first year experience, when the last movement was a £56 million reduction, so I would say if you are just going to base it on past experience you want in the region of £40 million, £50 million, £60 million, that type of level, to deal with our experience in the past. We will refine that judgement.

David Gallie (Assistant Director, Group Finance, GLA): Just to provide context, that £56 million is essentially backed against a £2.2 billion level of combined business rates and Council Tax income. So although in absolute terms it is obviously a huge sum, as a percentage of that £2.2 billion, it is actually relatively small.

James Cleverly AM: Relatively small? It is almost *de minimis,* I would argue?

David Gallie (Assistant Director, Group Finance, GLA): The other point to be made is that the GLA is taking the risk on Council Tax income and business rates by having passed those sums largely to the functional bodies, TfL and the others. We do not expose TfL, MOPAC and LFEPA to the risk and the volatility of the new regime, which is a further reason why we need to have that minimal provision in the Mayor's Resilience Reserve.

John Biggs AM (Chairman): I cannot help but ask a couple of further questions, because I am prompted by him. "Of course he is the primary troublemaker", he said, pointing to William Robertson. This time next year, you will still have £120 million left in this reserve.

David Gallie (Assistant Director, Group Finance, GLA): Our estimate is £115 million at 31 March 2016, but obviously that is subject to any decisions that the Mayor will make and obviously the assumptions made coming through.

John Biggs AM (Chairman): If no decision was made, it would stay at that level?

Martin Clarke (Executive Director, Resources, GLA): There are two other factors that will change that figure. This summer we will have the actuals for the previous year's business rates from the boroughs, that will vary it, and then next January, we will have their revised forecasts for the current year and the forecast going, so it will move before we consider the Mayor's final budget in February 2016.

John Biggs AM (Chairman): If I was the Government, I would see this as a windfall to claw back partially in next year's grant allocation.

David Gallie (Assistant Director, Group Finance, GLA): That is always possible. The Government --

John Biggs AM (Chairman): That is always a risk, is it not?

James Cleverly AM: That was always, was it not, one of the dangers about a public pronouncement by the Mayor for LFEPA, saying, "Whatever the Government does, I will make sure your spending power is not diminished"? If I were a government trying to find a couple of tens of millions savings here and there, I would go, "Hang on a second, Boris [Johnson, Mayor of London] is going to make up any shortfall to LFEPA."

David Gallie (Assistant Director, Group Finance, GLA): It is probably just worth bearing in mind the level of reserves that the [GLA] Group has. We are looking at £2.4 billion of reserves as at 31 March 2015 across the group.

John Biggs AM (Chairman): If you take out the reserves in TfL, which tend to be earmarked for future capital things.

David Gallie (Assistant Director, Group Finance, GLA): That is about £1.8 billion, so we are looking at about £600 million of reserves that are across the GLA, MOPAC and LFEPA.

John Biggs AM (Chairman): If we take out the capital reserves in the MPS for investment in IT and the estate, then that will take it down to about £400 million or something.

David Gallie (Assistant Director, Group Finance, GLA): It is probably taking it down a further £60 million. I do not have the figures in front of me, but I suppose the Mayor's Resilience Reserve is potentially 20% of that sum. But it does feel that is a price that we have to pay for the benefits of a devolved system. Clearly if further devolution were to happen on business rates, then we would need to reconsider the scale of contribution we need in the Mayor's Resilience Reserve.

Martin Clarke (Executive Director, Resources, GLA): I was going to say, obviously the Government have many tools they could play if they wanted to, but what would be really strange is take the case of LFEPA, which we are talking about funding which is distributed formally nationally, for them to want to treat London differently because the Mayor was sitting on some extra reserves. Yes, the Government have got the levers, but I would see that as a very low risk in this situation. It is not like you are getting specific lump-sum funding for things.

John Biggs AM (Chairman): The biggest crime on LFEPA reserves arguably is when the Mayor said, "What nice reserves these are. I will take them for something else" some time ago.

Martin Clarke (Executive Director, Resources, GLA): Then gave back it in spades by an extra £50 million a year.

James Cleverly AM: There was an upturn in the annual award.

John Biggs AM (Chairman): OK.

James Cleverly AM: This money is not being earmarked quietly for something, is it?

John Biggs AM (Chairman): None of it is earmarked.

Martin Clarke (Executive Director, Resources, GLA): This is all, you could say, earmarked for the funding of financial risks across the GLA Group.

John Biggs AM (Chairman): Are there separate specifically earmarked reserves?

Martin Clarke (Executive Director, Resources, GLA): This is an earmarked reserve.

John Biggs AM (Chairman): Are there separate specifically earmarked reserves alongside these, or is this the reserve?

Martin Clarke (Executive Director, Resources, GLA): This is the reserve for managing GLA Group financial matters relating to Council Tax, grant timing changes, the business rate, for funding things.

James Cleverly AM: This is the ultimate reserve, the reserve in the reserve, so you have allocated reserves and then this secondary reserve.

David Gallie (Assistant Director, Group Finance, GLA): There are reserves for the elections, there are reserves for the Assembly which are specific.

John Biggs AM (Chairman): Which are what I would call earmarked, as we have said.

Martin Clarke (Executive Director, Resources, GLA): This is earmarked for what I call financial-type risk at a Group-wide level. The GLA does have an earmarked reserve to manage some of the funding risk for London Legacy Development Corporation (LLDC), for example.

John Biggs AM (Chairman): We know we are going to have to spend £20 million on the election, so we have that separately.

Martin Clarke (Executive Director, Resources, GLA): Yes.

John Biggs AM (Chairman): We know that the LLDC has risks and liabilities. We have to pay for the stadium roof, so that is somewhere.

Martin Clarke (Executive Director, Resources, GLA): Yes, so part of this year's budget settlement was for LLDC before. They are not holding reserves, but the GLA is holding reserves for them.

John Biggs AM (Chairman): Accountability: one little question about accountability, which is the Mayor comes along and says, "Nothing to do with the election, boys and girls, but I am going to spend £50 million on a new bridge" or something, and obviously we will try to do our scrutiny at the Assembly, but it is outside of the formal budget strategy, so there is a bit of a deficit there. How, as the Executive Director for Resources (GLA), would you advise the Mayor to deal with that?

Martin Clarke (Executive Director, Resources, GLA): Would I advise to?

John Biggs AM (Chairman): To deal with the need to be transparent and accountable.

Martin Clarke (Executive Director, Resources, GLA): Absolutely. The Mayor has no plans to have an in-year budget and take the current balance of this Mayor's Resilience Reserve and --

John Biggs AM (Chairman): Blow it.

Martin Clarke (Executive Director, Resources, GLA): -- build another bridge or whatever.

James Cleverly AM: Or a golden throne.

John Biggs AM (Chairman): Yes.

Martin Clarke (Executive Director, Resources, GLA): I have to say, we have got the transparent decision-making process where everyone would see that. If that was the case, we would all be advised.

John Biggs AM (Chairman): This is in part two, of course. Yes, OK. Shall we move on? Tom has been waiting all afternoon for this moment of glory.

Tom Copley AM: It is because John is so captivating with his chairing, you see?

John Biggs AM (Chairman): I do not know. I wish that was stated with genuine passion.

Tom Copley AM: I am sure it is on the transcript and people can read it in whatever way they choose.

Moving on to future devolution, what do you think are the most likely changes to local taxation in the next Parliament?

David Gallie (Assistant Director, Group Finance, GLA): I feel it seems quite likely, regardless of the outcome of the election, that there is going to be some further devolution of retained business rates. It feels that both major parties are edging towards 90% devolution perhaps, but obviously we await the manifestos to confirm that. Obviously that leads to the same issues we discussed earlier. Stamp duty feels a long, long way away and HM Treasury seem very resistant to a devolution of stamp duty. The third element is Council Tax control, for want of a better word. That again feels quite difficult, given again the parties' views about potential reforms of Council Tax --

Tom Copley AM: Sorry, when you say Council Tax control --

David Gallie (Assistant Director, Group Finance, GLA): Effectively, at the moment Council Tax is in reality controlled by Government through referendum criteria and the regime rather than it being devolved to the Mayor to decide for instance on the number of bands or the level --

Tom Copley AM: Yes, so you do not think it is likely that that power will be --

David Gallie (Assistant Director, Group Finance, GLA): Subject obviously to the party manifestos and what would happen in the election, but if there were, for instance, a mansion tax introduced, that would cream off a large part of potentially additional income for the GLA and London boroughs without necessarily going back into London. This would be a national Government interaction with Council Tax which does not sit readily with devolution.

Tom Copley AM: Because of course in Wales they have had that devolution, have they not, and they have added various Council Tax bands, so there is precedent for it to --

David Gallie (Assistant Director, Group Finance, GLA): Indeed. I think within Scotland certainly, and obviously now with Manchester as well, there is clearly a whole series of precedents coming through, which means we are clearly moving in a direction of further devolution. But it feels - to my mind anyway - that the most likely element would be retained business rates.

Tom Copley AM: OK, let us take the retained business rates. What risks do you think would be present and is the GLA preparing for these at the moment?

David Gallie (Assistant Director, Group Finance, GLA): The key risk is - that if 50% became 90% and if for argument's sake, the GLA's 20% became 40%, a doubling of retained business rates control, it would suggest that we would need to increase the provision in the Mayor's Resilience Reserve for increased volatility. This is clearly a cost that we need to bear in mind or provisionally to put in place for that further level of devolution. It also then opens up issues of being more subject to regime change, as business rates reform might be coming through. If you devolve something that actually is neutered, then it does not become a very effective devolution. The Government could fundamentally change business rates or even marginally change the indexation, say from Retail Prices Index (RPI) to Consumer Prices Index (CPI), which would seem to be potentially quite likely, or shift the incidence of the tax to give large protection to small businesses, and then the benefits of devolution could be potentially reduced. Obviously bearing in mind the Government's concept of devolution is that there is no new net resources at day 1, so if we had 90% of business rates devolved, there would clearly then be grant losses to the GLA --

Tom Copley AM: To counteract.

David Gallie (Assistant Director, Group Finance, GLA): -- and to the London boroughs to compensate at day one to ensure there is a neutral position. That would then have all sorts of complications. Potentially there would be grant turn-offs of, say, police or transport which would then clearly give the Mayor greater discretion to allocate business rates, but then --

Tom Copley AM: Although not really power to vary it on anything, which is the thing. It is all very well devolving it, but then not devolving really very much control over how and what level it is set.

David Gallie (Assistant Director, Group Finance, GLA): Indeed, and particularly if there is mooted reform of business rates, then clearly it could be, as I say, a neutered devolution.

Tom Copley AM: What will the GLA be contributing to the review of the structure of business rates? What will you be saying?

David Gallie (Assistant Director, Group Finance, GLA): The review submission date is somewhere in June and obviously there are some major issues that we need to consider. In previous more technical consultations, we focused in on more narrow, minor issues, but there are some fundamental issues that we need to discuss with the Mayor and the Chief of Staff around how they would want to respond to the bigger questions being asked in the review: should there be a shift from essentially a square metreage being the basis of being charged to something based solely on turnover?

Tom Copley AM: Turnover, yes.

David Gallie (Assistant Director, Group Finance, GLA): What would be the position around looking to give greater support to small businesses, small to medium enterprises (SMEs), for instance? There are some quite major policy issues that we need to take a bit more time to review and take consultations on. So I would not want to pre-empt that conversation at this point.

Tom Copley AM: Sure. Martin, did you want to come in on this?

Martin Clarke (Executive Director, Resources, GLA): I was going to say I think that is right, and at this stage an over-arching approach to any response to any consultation on business rate devolution and/or anything to do with funding of our sector is going to be the recommendations that are relevant in the London Finance Commission, that they are still being pushed at every opportunity. We have opined on stamp duty. It just seems to get no traction, but what we should have control of, because actually it will give us more mechanism for managing the risk, is a fuller basket of control over those taxes.

Tom Copley AM: Yes, absolutely. If the GLA does get more control over how to raise local business rates, what options would you present to the Mayor?

David Gallie (Assistant Director, Group Finance, GLA): The key option in discussion is the share of say 90% between ourselves and the boroughs and that is clearly a high-level political decision to be made. There are obviously good arguments on both sides, boroughs doubtless will be emphasising pressures on social care, for instance. We need to look very closely though at what grant streams will be shut off. So if the grant streams shut off to compensate are ones that are relating to police and transport, then that would clearly be a key argument around what share we would have. Clearly it depends on the degree of delegation we would have, but there could be issues around wanting to simplify the appeals process, some of the things we talked about before. Would we want to have more frequent revaluations if it was more under our control? Would there even be options about additional taxes that we could levy that could be in substitution for retained business rates, so perhaps a hotel tax?

Tom Copley AM: Which the Mayor has come out in support of recently, actually.

David Gallie (Assistant Director, Group Finance, GLA): Also then ultimately around the multiplier, would we want the multiplier to be tied to RPI or CPI or should there even be indexation?

John Biggs AM (Chairman): OK, great. Are you impressed by the Brent initiative?

David Gallie (Assistant Director, Group Finance, GLA): The Brent initiative, sorry?

John Biggs AM (Chairman): Is to nationalise across 400 companies. No, the Brent initiative is the one for giving a business rate discount for firms paying the Living Wage.

Tom Copley AM: That is interesting.

John Biggs AM (Chairman): It has not come across your radar?

Martin Clarke (Executive Director, Resources, GLA): It has.

James Cleverly AM: That is actually interesting.

John Biggs AM (Chairman): It is interesting, because the borough could do that and it provides an incentive to good employers, but of course from the selfish City Hall point of view, it implies a loss of income over which we have no influence, but yes, nevertheless it is a progressive sort of policy.

Martin Clarke (Executive Director, Resources, GLA): Exactly, it is progressive policy. It just shows that you have got something that will have an impact on the finance that comes to City Hall which City Hall has no say in. It is just a question, should there be some mechanism and consultation, but I could not see City Hall saying no. In fact, of course City Hall itself is party, you could say, to deals, the regeneration schemes, we are agreeing that future business uplift will go to fund those schemes.

David Gallie (Assistant Director, Group Finance, GLA): To add on that as most relief gains Government support, so the pain is shared. Obviously there are certain reliefs that just, as Martin says, hit the boroughs and ourselves, and therefore I guess there is an issue: would the Government or any government look to help support those kind of initiatives to minimise the impact?

John Biggs AM (Chairman): Interesting. Although the Government is unlikely - although we might want to lobby them to do this - to grant a power to vary business rates, there is nevertheless a Business Rate Supplement (BRS), which in some circumstances can be levied and there might be the prospect of pushing for that, whether it is earmarked for particular schemes or for more general funding of initiatives, given the strength of London's economy.

David Gallie (Assistant Director, Group Finance, GLA): The Business Rate Supplement is earmarked to finance Crossrail 1 up to, say, 2032. The work that we have been doing with TfL is making the presumption that the BRS potentially could continue to contribute towards Crossrail 2, but obviously there is a statutory process we would need to go through to satisfy that. At the moment, it would be hard to argue that BRS could be an additional income source more generally, unless obviously you were to change the statute or increase the burden of BRS.

John Biggs AM (Chairman): OK. Finally then on the mansion tax, leaving aside whether for tribal reasons people support it or not, clearly there is an issue which you bring out that maybe a lot of people do not realise, which is that it would be a tax created by central Government rather than a property tax created by local government.

David Gallie (Assistant Director, Group Finance, GLA): I am assuming that the borough would still collect.

John Biggs AM (Chairman): No, actually, that it is going to be retained by central Government.

David Gallie (Assistant Director, Group Finance, GLA): Yes, the proceeds would be passed over by some sort of hypothecation.

John Biggs AM (Chairman): To subsidise Scotland, I believe, but anyway, yes.

Tom Copley AM: Behave yourself, John. People are watching.

John Biggs AM (Chairman): Are they?

Tom Copley AM: We will see.

James Cleverly AM: We will find out.

John Biggs AM (Chairman): I am going to be expelled now. Yes, deary me. It would not be before time. OK, can we thank you for your answers then?