

GREATER LONDON AUTHORITY

REQUEST FOR MAYORAL DECISION – MD2695

Title: Allocation of GLA Group reserves in response to Covid-19

Executive Summary:

On 26 June the Mayor published his Budget Guidance for 2021-22, which set out revised funding control totals from business rates and council tax for the 2020-21 financial year and proposed targets for 2021-22 in light of the forecast reduction in income from these sources by March 2022. The GLA Group has also incurred significant expenditure, and reductions in income, responding to and as a direct result of Covid-19.

The GLA has prudently established reserves to meet risks to the Group's income and unexpected cost pressures. This decision form therefore seeks the Mayor's approval to allocate additional funding from these reserves to reduce the 2020-21 savings required of the GLA, LFC and MOPAC; fund costs associated with the postponement of the GLA elections; meet potential cost pressures associated with the East Bank project; and support the delivery of collaborative initiatives across the Group. It also sets out the latest position on GLA Group reserves that are held by the GLA including the sums being retained for future pressures.

Decision:

That the Mayor:

- 1) approves the creation of a new Group reserve to be held by the GLA totalling £41.5 million to fund a 50% reduction in GLA: Assembly, GLA: Mayor, LFC and MOPAC 2020-21 savings targets, in case this is not achievable through increases in income in 2022-23 and 2023-24;
- 2) approves the allocation of £88.4m to the GLA's LLDC capital programme reserve, to meet potential unconfirmed costs facing East Bank and other projects, with £20.5m of this sum being allocated as grant funding to LLDC to meet confirmed pressures;
- 3) approves £10m being allocated to the GLA elections reserve, for drawdown by the Greater London Returning Officer;
- 4) approves £2m for investment in GLA Group collaboration initiatives, delegating the allocation of this funding to the Chief of Staff, in consultation with the Executive Director of Resources; and
- 5) notes the latest position on GLA Group reserves including the business rates reserve, based on the draft statement of accounts for 2019-20 published on 28 August having regard to the allocations above. The balance remaining in the business rates reserve will be held to manage future pressures facing the GLA Group.

Mayor of London

I confirm that I do not have any disclosable pecuniary interests in the proposed decision and take the decision in compliance with the Code of Conduct for elected Members of the Authority.

The above request has my approval.

Signature:



Date:

17/7/20

PART I - NON-CONFIDENTIAL FACTS AND ADVICE TO THE MAYOR

Decision required – supporting report

1. Introduction and background

- 1.1. Since the 2020-21 GLA Group budget was set in February 2020, Covid-19 has and will have an immense impact on the GLA Group's finances through additional expenditure requirements and loss of income (both from general taxation and income for services, most notably public transport fares).
- 1.2. The latest estimated GLA Group financial impact of Covid-19 in 2020-21 is forecast to range from £4.1 billion to £5 billion depending primarily on assumptions made around Transport for London (TfL) fare revenue losses and the GLA's share of council tax and business rates losses. This comprises between £3.5 billion and £4.3 billion in lost income and between £600 million to £700 million in increased expenditure. Taking into account the £1.6 billion from TfL's emergency funding package being provided by the Department for Transport (DfT) covering the period up to 30 September and the GLA's Covid-19 funding from MHCLG, the estimated funding gap in 2020-21 is between £2.8 billion and £3.7 billion.
- 1.3. The GLA has prudently established Group-level reserves to meet risks to our income and unexpected cost pressures. The business rates reserve was created to manage risks to taxation income, in particular business rates. The strategic investment fund (SIF) reserve holds unallocated receipts from the GLA's share of the 100% and 75% business rates growth retention pilots in 2018-19 and 2019-20, which by agreement with HM Treasury are to be spent on measures that boost economic activity in London. Following the receipt of final returns from billing authorities, these reserves are confirmed (subject to the external audit of the GLA's accounts which is currently underway) as holding £126.7m and £80.8m respectively; a total of £207.5m.
- 1.4. While on their own these are insufficient to meet the unprecedented impact of Covid-19, which the Bank of England has predicted could cause the worst recession in 300 years, they are available to mitigate its impact. This decision form therefore proposes how these reserves should be allocated, balancing current and future financial risks.

Loss of tax income

- 1.5. The forecast impact on tax income levels for the current and next financial years were set out in the Mayor's Budget Guidance, published on 26 June 2020. Reflecting the uncertainty as to developments in the economy and what action may be taken by the Government, three potential scenarios were set out. The most significant of these, which is also believed to be the most probable, required GLA Group organisations to deliver savings of £493m across this and next financial year, in addition to any other losses of income or additional expenditure that they face.
- 1.6. On 2 July 2020, the Ministry for Housing, Communities and Local Government (MHCLG) announced a package of measures to provide some support to local authorities. While further guidance and secondary legislation is required around some measures, the Government confirmed it would permit local authorities (including the GLA) to repay 2020-21 tax income losses across the three subsequent years – so the losses would be borne in budget terms in equal amounts in the 2021-22, 2022-23 and 2023-24 budgets (with the deficits held via a special balance sheet spreading reserve until they are released).
- 1.7. It is recognised that the 2020-21 savings targets set in the Mayor's Budget Guidance are challenging, particularly given the need to deliver them in-year when several months have already passed and focus is needed on delivering savings on a recurring basis for 2021-22 and thereafter. Equally, the loss of tax income (and consequent overall savings required) is expected to be greater in 2021-22, and the pace of any recovery thereafter is currently unpredictable and has to be considered alongside potential future Government spending decisions.

- 1.8. Given the flexibility now provided by MHCLG and the Mayor's priority to keep Londoners safe, it is now proposed that the Mayor's Office for Policing and Crime (MOPAC) and the London Fire Commissioner's (LFC) respective 2020-21 savings targets be reduced by 50% on each of the three scenarios to a maximum of £25.6m and £5m respectively.
- 1.9. In MD2666, the Mayor approved the halving of the London Assembly's 2020-21 savings target, and the repurposing of the GLA: Mayor budget to deliver half the savings required in the most challenging scenario. It is therefore proposed that the same treatment will be applied for the GLA: Mayor and GLA: Assembly, but not the London Legacy Development Corporation (LLDC) or the Old Oak and Park Royal Development Corporation (OPDC) – who have both indicated they expect to be able to meet this year's savings targets in full – or TfL, whose finances are being considered separately in negotiations with the DfT.
- 1.10. The sums excluded from each savings target above (a maximum of £45.1m: up to £14m for GLA: Mayor, £0.5m for GLA: Assembly, £5m for LFC and £25.6m for MOPAC) will need to be generated through the 2022-23 and 2023-24 budgets. While it is expected that London's economy and tax base will recover, this is not guaranteed. Further, it is possible that future Government decisions around the business rates system or spending allocations could create additional financial pressures for the GLA Group.
- 1.11. Accordingly, it is viewed as prudent to place this sum in reserve until such time as we have reasonable confidence that it can be repaid through growth in tax income, or other appropriate sources that may in future become available. Therefore, it is proposed that £45.1m be held in a new Group-level reserve for this purpose, allocated from the business rates reserve. Should any or all of it not be required for this purpose, it would be returned to the business rates reserve.
- 1.12. Further consideration will be given to these issues throughout the remainder of the financial year having regard to any updates to billing authority income estimates from council tax and business rates and any Government announcements regarding support that may be available.

Covid-19 costs

- 1.13. MD2627 and MD2671 set out how the Mayor has allocated the £18.55m in additional funding provided by MHCLG to meet additional costs arising from the Covid-19 pandemic. While welcome, this funding was insufficient to meet the many extra costs incurred across the GLA Group.
- 1.14. The approach adopted has been that in general, where funding is not available from the Government the respective GLA Group organisation will need to meet the costs from their own resources, delivering additional savings where necessary to do so. There are two exceptions to this where it is recommended support is provided from Group reserves.
- 1.15. First, the postponement of the May 2020 GLA elections, announced by the Government on 13 March 2020, by which point significant costs had already been committed towards their original date that cannot be recovered or repurposed for the new elections date of 6 May 2021. These costs of postponement have been calculated at £8.5m. It is expected that additional costs will be incurred to ensure that the rescheduled elections can be conducted in a Covid-19 secure manner. Financial support is being sought from the Government, but we must prudently prepare in case this is not forthcoming.
- 1.16. The GLA elections are funded from the GLA: Mayor budget, however determination of the expenditure required is a matter for the Greater London Returning Officer (GLRO). To avoid these necessary additional costs impacting on the activities of the GLA, it is proposed that they be funded from the business rates reserve and, following consultation with the GLRO, an allocation of £10m is recommended, to be held in the GLA's elections reserve and drawn down as required.
- 1.17. Second, the London Legacy Development Corporation (LLDC) is facing a shortfall on its capital programme which includes East Bank, a new cultural and education district on Queen Elizabeth Olympic Park in Stratford. The anticipated final costs of the capital programme have risen due to

the impact of Covid-19, as to comply with the Government's Covid-19 social distancing requirements, it was necessary for construction work on LLDC's East Bank project to be brought to a safe stop until such time as appropriate measures could be introduced on the constrained site to keep construction workers safe from the risk of infection.

- 1.18. These measures have been introduced, and construction work is taking place in two shifts to mitigate the schedule impact to the greatest extent possible. These Covid-19-related costs, along with previously disclosed challenges around tender return prices from the market in excess of budget and increased risks of delivery challenges, some of which have been realised, are likely to increase the overall East Bank budget requirement, which is managed at Group-level rather than from LLDC or GLA revenue funding.
- 1.19. LLDC is currently working on understanding and mitigating these costs. This is necessarily a work in progress, given the uncertainty around Covid-19 and whether/when the Government will tighten or relax restrictions in the period ahead. Further, this should be considered alongside an update to the LLDC long-term capital model, reflecting developments across its entire programme of development activity. This will be completed as part of LLDC's production of its budget submission, due to be considered by its board in November. Early indications are that this may include some reductions in costs, however if confirmed, the benefit of this would be felt in later years whereas East Bank construction is underway now.
- 1.20. East Bank will form a significant part of London's recovery from the impacts of Covid-19, given its impact on the creative industries and tourism sectors. To ensure these economic and social benefits are delivered, it is necessary for sufficient funding to be available to complete the project. LLDC's latest capital requirement estimate of total additional capital costs and quantified risks is £88.4m, inclusive of East Bank and other capital projects, however this is unconfirmed and a number of mitigations are being considered.
- 1.21. When LLDC's work is complete, it will be reviewed by its board and GLA officers to ensure the final cost growth figure is unavoidable. Given the Government's support for East Bank, LLDC supported by the GLA is exploring whether additional Government funding may be available. While this is ongoing, the prudent approach is to hold an additional £88.4m (as the best available information) in the GLA's LLDC capital programme reserve, which exists to ensure the GLA can fund LLDC's capital activities beyond the established borrowing arrangements. £80.8m of this will be funded from the SIF reserve, with the balance of £7.6m coming from the business rates reserve.
- 1.22. While this work continues, it has been confirmed that the East Bank project requires an additional and immediate £20.5m of budget headroom to be confirmed so that LLDC can continue placing contracts for construction works packages to meet the programme's critical path and ensure design integration between construction packages. It is therefore proposed that this funding be granted to LLDC from the LLDC capital programme reserve.

Future costs and risks

- 1.23. The delivery of the 2021-22 savings targets set out in the Mayor's Budget Guidance will require all organisations in the GLA Group to deliver savings and efficiencies on top of those already realised and planned. One key initiative to do this is the GLA Group Collaboration Board, which is working to deliver savings through increased shared services and other collaborative activities across the GLA Group.
- 1.24. MD2496 allocated £2m in funding for GLA Group collaboration initiatives. Given the impact of Covid-19 and the need to accelerate the delivery of savings, the Board has been working to establish a number of opportunities in areas such as office accommodation, energy procurement and across a range of back-office and service delivery functions. To progress many of these opportunities, including potentially in areas still being scoped, further funds are required. Accordingly it is proposed to allocate a further £2m, and as in the previous decision delegate approval of this expenditure to the Chief of Staff as Chair of the GLA Group Collaboration Board, in consultation with the GLA's Executive Director of Resources.

- 1.25. Just as Covid-19 was unknown last year, we need to prudently provide for future uncertainties and risks facing the GLA Group. As well as a highly uncertain economic future for London and the UK, we also have no sight of future Government funding decisions, whether related to the business rates system and its use by local government, or regarding the setting of baselines or grant funding allocations. The inability to reliably plan even for the short to medium-term means that we have to be more cautious than perhaps otherwise would have been the case, especially as any reductions in future income would make it harder to build-up reserves again than in the past.
- 1.26. The Government are still considering a business rates reset for 2021-22, rebasing and reallocating most if not all growth secured since 2013-14. Alongside the Spending Review, one possible outcome is a redirection of resources away from the GLA (e.g. the TfL and GLA elements) and most London boroughs and the City of London Corporation to other English local authorities (e.g. to raise additional funds for social care). There also remain uncertainties about the exact levy and safety net calculation methodology to be used for 2020-21 retained business rates calculations as the Government is likely to amend the regulations later this year. Further risks may arise from potential Government reviews of the allocation of funding between different local/regional government, police and fire authorities.
- 1.27. Section 5 of this form summarises the allocations proposed and the amounts remaining in these two Group reserves. At this time it is viewed as prudent to not allocate the remaining sums from the business rates reserve, based on the information currently available and the potential future risks to which the GLA Group may be exposed. Ultimately of course a prudent level of reserves is a matter for the Executive Director of Resources to exercise professional judgement on having regard to his statutory responsibilities, and he will keep this under review.

2. Objectives and expected outcomes

- 2.1. The allocations of GLA Group reserves proposed in this decision are designed to deliver an appropriate response to the impact of Covid-19, mitigating key risks faced by the GLA Group whilst retaining a prudent level of reserves given future risks and uncertainties.
- 2.2. In particular, the specific allocations:
- *2020-21 saving target reduction*: reduce the impact on the GLA, LFC and MOPAC of the forecast loss of council tax and business rates income, given the economic impact of Covid-19, enabling them to deliver more services to Londoners than would otherwise be the case;
 - *GLA election costs*: enable the GLRO to meet the necessary costs associated with the running of the elections, including the costs associated with the postponement of this year's election and measures to ensure they are conducted in a Covid-secure manner;
 - *LLDC capital programme*: ensure that resources will be available should they be required in order to deliver the East Bank project and to realise the benefits set out in previous Mayoral decisions approving the project; and
 - *GLA Group collaboration*: enable the progression of projects to increase the number of shared services and collaborative working initiatives, to deliver material recurring financial savings and other benefits to GLA Group members.

3. Equality comments

- 3.1. Under section 149 of the Equality Act 2010 ('the Equality Act'), as public authorities, the Mayor and GLA Group bodies must have due regard to the need to eliminate unlawful discrimination, harassment and victimisation, and to advance equality of opportunity and foster good relations between people who share a protected characteristic and those who do not when exercising their functions. This is known as the Public Sector Equality Duty ("PSED"). Protected characteristics under the Equality Act are age, disability, gender re-assignment, pregnancy and maternity, race, religion or belief, sex, sexual orientation, and marriage or civil partnership status (the duty in respect of this last characteristic is to eliminate unlawful discrimination only). In line with best practice, the impact on groups who also have the potential to be socially excluded, in this case, people on low incomes or from deprived communities, should also be considered notwithstanding that these specific attributes are not protected under the Equality Act but may be common to people with protected characteristics.
- 3.2. The Mayor's budget is set, and the establishment and use of reserves determined, with reference to the Mayor's 'Inclusive London' Equality, Diversity and Inclusion Strategy. Further equalities impact assessments on the impacts on groups mentioned above will be undertaken as funding from reserves is drawn down and applied to programmes or to meet other cost pressures. In regard to the additional allocation for East Bank, LLDC's priority theme of championing equalities and inclusion was taken into account in the development of the proposition for East Bank, in consultation with all the project partners. LLDC will ensure that equalities, access and sustainability considerations are applied to procurement, employment, participation and inclusive design as required throughout the project.

4. Other considerations

- 4.1. This decision form outlines the proposed use of reserves in 2020-21, based on the latest estimates of cost pressures and expenditure arising from the impact of Covid-19. However, there is a risk that if expenditure is higher and/or the reduction in income is greater than currently anticipated and sufficient further savings cannot be delivered, the GLA and its functional bodies will face a greater shortfall than currently anticipated. In the absence of any further Government funding, this shortfall would have to be met from reserves.
- 4.2. Other potential risks and their management are set out in paragraphs 1.25 to 1.27.
- 4.3. The proposed allocation of resources from reserves will support the implementation of the Mayor's strategies, which are viewed as being aligned with the work to date of the London Recovery Board. In many cases, the impact of Covid-19 has made the delivery of the strategies even more urgent for the wellbeing of London and Londoners.
- 4.4. No conflicts of interest have been identified for those involved in the drafting and approval of this decision.

5. Financial comments

- 5.1. This decision form allocates GLA Group reserves as follows:

	Business rates reserve	Strategic Investment Fund reserve
<i>Existing balance</i>	<i>£126.7m</i>	<i>£80.8m</i>
Allocation to saving target reduction reserve	-£45.1m	

Allocation to GLA elections reserve	-£10m	
Allocation to LLDC capital programme reserve	-£7.6m	-£80.8m
Allocation to GLA Group collaboration projects	-£2m	
<i>Remaining balance</i>	<i>£62.0m</i>	<i>£0m</i>

5.2. Financial issues are integral to this decision and considered accordingly throughout.

6. Legal comments

- 6.1. The GLA: Mayor budget for 2020-21 was approved by the Mayor under MD2619 in accordance with the GLA Group council tax requirement and budget setting procedures of Part III of the GLA Act 1999 and its budget lines were repurposed by MD 2666. The proposals set out in this form do not involve changes to the overall envelope of the approved GLA: Mayor or other approved component budgets for 2020-21 and their council tax requirements, which result in the GLA precept issued to billing authorities in March this year. The Mayor may amend budget lines and make savings to the approved budget within the approved council tax requirement envelope as circumstances require during the financial year. This includes the ability to create, allocate and change the amounts held as reserves against future expenditure.
- 6.2. The Greater London Authority Act 1999 and Local Government Finance Act 1992 require billing and precepting authorities to have regard to the level of contingencies and reserves needed for meeting estimated future expenditure.

7. Planned delivery approach and next steps

- 7.1. The financial allocations proposed in this decision form will be implemented promptly following its approval. Financial issues and risks will be considered continuously throughout the GLA Group budget process, the expected timetable for which is set out below.

Activity	Timeline
Mayor's component budget letters issued to functional bodies	October 2020
Mayor's 2021-22 consultation budget published	December 2020
Mayor's 2021-22 draft budget published	January 2021
Mayor's 2021-22 final draft budget published	February 2021
Mayor's 2021-22 final budget approved	28 February 2021

Appendices and supporting papers:

Background documents:

- [The Mayor's Budget Guidance for 2021-22](#)
- [MD2627 COVID Pandemic Assistance](#)
- [MD2666 Repurposing the 2020-21 GLA: Mayor's Budget](#)
- [MD2671 COVID-19 Pandemic Assistance](#)

Public access to information

Information in this form (Part 1) is subject to the Freedom of Information Act 2000 (FoIA) and will be made available on the GLA website within one working day of approval.

If immediate publication risks compromising the implementation of the decision (for example, to complete a procurement process), it can be deferred until a specific date. Deferral periods should be kept to the shortest length strictly necessary. **Note:** This form (Part 1) will either be published within one working day after it has been approved or on the defer date.

Part 1 - Deferral

Is the publication of Part 1 of this approval to be deferred? NO

If YES, for what reason:

Until what date: (a date is required if deferring)

Part 2 – Sensitive information

Only the facts or advice that would be exempt from disclosure under FoIA should be included in the separate Part 2 form, together with the legal rationale for non-publication.

Is there a part 2 form – NO

ORIGINATING OFFICER DECLARATION:

Drafting officer to confirm the following (✓)

Drafting officer:

Enver Enver and Martin Mitchell have drafted this report in accordance with GLA procedures and confirms the following:

✓

Sponsoring Director:

David Callie has reviewed the request and is satisfied it is correct and consistent with the Mayor’s plans and priorities.

✓

Mayoral Adviser:

David Bellamy has been consulted about the proposal and agrees the recommendations.

✓

Advice:

The Finance and Legal teams have commented on this proposal.

✓

Corporate Investment Board

This decision was agreed by the Corporate Investment Board on 14 September 2020.

EXECUTIVE DIRECTOR, RESOURCES:

I confirm that financial and legal implications have been appropriately considered in the preparation of this report.

Signature

D. Gane

Date

17 September 2020

CHIEF OF STAFF:

I am satisfied that this is an appropriate request to be submitted to the Mayor

Signature

D. Bellamy

Date

14 September 2020