

MAYOR OF LONDON

The Mayor's Budget Guidance for 2020-21

June 2019

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The GLA Group comprises:

- **Greater London Authority (GLA), which includes the London Assembly**
 - **London Fire Commissioner (LFC)**
 - **London Legacy Development Corporation (LLDC)**
 - **Mayor's Office for Policing and Crime (MOPAC), which provides oversight of the Metropolitan Police Service (MPS or 'Met')**
 - **Old Oak and Park Royal Development Corporation (OPDC)**
 - **Transport for London (TfL)**
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Executive Summary of the Mayor's Budget Guidance for 2020-21

This document sets out my Budget Guidance for next year's budget.

Throughout my time in office, the Government has never provided enough certainty about future years' funding, but for this year's budget round they have created an unprecedented degree of uncertainty.

Although the Chancellor of the Exchequer has announced a Spending Review (SR) that was planned to conclude in time for his Budget Statement in November, it now seems likely that due to Brexit and the changes in Government this SR will amount to little more than a one-year roll-over of the existing position. Even if this is confirmed and gives some continuity for 2020-21, it just defers the uncertainty a SR inevitably involves for later years. This is particularly concerning where long-term investment is required, such as London's transport infrastructure and police officer numbers.

Despite the likely deferral of the SR, the Government is to introduce Fair Funding Reviews of police and fire authorities. Although of course the Government has not made its intentions clear, it seems likely that fire and rescue services' Fair Funding Review will be introduced in 2020-21, whereas the policing Fair Funding Review may be implemented a year later. The impact of these on London is unclear, as is the time we will have to adapt to any changes. The GLA, its MDCs and TfL are outside the Fair Funding Reviews but will negotiate settlements directly with the Government.

To compound uncertainty even further, the Government is expected to re-set business rate baselines in April 2020. As the GLA now receives over £2.5bn of business rates and has been a recipient of significant business rates growth over the past few years, this is a major change to the resources at my disposal. The potential for the Government to reduce core funding to TfL and the rest of the Group by re-setting baselines creates real uncertainty and risks for London. Although the Government is consulting on the new business rates regime from April 2020, there are unlikely to be any indications of decisions until the Autumn.

And then there is the direct impact of Brexit!

Despite these uncertainties, we need to start planning for next year's budget and I wish to clarify my intentions to give the GLA and its functional bodies the maximum time to develop proposals.

To begin this process, I propose that the GLA Group should assume for their budget planning that their allocation of discretionary revenue income for the next few years will be broadly as set out in my agreed 2019-20 Budget. These allocations make realistic assumptions about the outcomes of the SR, Fair Funding Reviews and business rates re-set and allow some contingency for a hard Brexit. However, they also protect core funding that I have provided across the Group to support my priorities.

My detailed Budget Guidance sets out more details of the 2019-20 Budget process, but I would like to emphasise two key points.

First, last year the requirement to produce a Capital Strategy across the Group was successfully introduced. For 2020-21 a new Financial Management (FM) Code is being introduced by CIPFA. Accordingly, this Budget Guidance includes certain new additional advice from the draft FM Code which the Group will need to consider in preparing next year's budget.

And second, there has been a significant improvement in the Group's performance in producing and publishing quarterly monitoring reports last year. However, I am now mandating that, save for exceptional circumstances, all functional bodies need to prepare and publish these monitoring reports within the deadlines specified.

In the Autumn, I plan to issue preliminary draft budget proposals for consultation with the GLA and its functional bodies. I expect a full submission from all members of the Group, including all the new requirements set out in accordance with my guidance. Once I have reviewed these submissions, they will form the basis of my Draft Consultation Budget to be issued in December ahead of the statutory consultation process with the Assembly in the New Year.

Budget control totals will be updated as soon as practical after clarity is obtained from the Government. However, there is a real risk that these will not be received until very late in December, or even in the new year. I appreciate the challenges this brings to colleagues, including the important scrutiny function performed by the London Assembly Budget & Performance Committee, and I will endeavour to take any necessary decisions as quickly as circumstances allow.

I appreciate that this Budget Guidance will be challenging for the GLA Group to implement. As financial pressures continue to grow, further substantial efficiencies and savings will be required. It is therefore vital that the resources we do have are used to their best possible effect so that we can continue to build on the achievements of my first three years in office.

Sadiq Khan
Mayor of London
June 2019

1 Introduction

- 1.1 The GLA Group Budget ensures that there are sound financial plans to support Mayoral objectives and priorities within available resources. The budget development process is designed to ensure that the Mayor's budget proposals are an accurate reflection of the Mayor's priority aims and objectives within available resources. These balance the Mayor's manifesto commitments with his statutory responsibilities and priorities arising from regional, national and international events.
- 1.2 The 2020-21 budget process in summary requires the GLA and its functional bodies to:
- prepare their 2020-21 budget submission on the basis set out in this guidance;
 - provide timely and high-quality quarterly budget monitoring information to help inform the Mayor's deliberations on his budget;
 - work on the basis that control totals for revenue spend set out in this Budget Guidance are likely to be the preliminary draft revenue budget proposals that the Mayor will issue for consultation;
 - make a full and final public budget submission to the Mayor by Friday, 29 November 2019 with proposals that ensure their budget is within the funding envelope specified;
 - consider and respond to the publication of the Mayor's draft consolidated budget which is to be published in mid to late December 2019; and
 - engage with the Assembly as it considers the Mayor's statutory budget proposals until late February 2020.
- 1.3 A more detailed budget timetable is attached as Annex A.
- 1.4 In the light of progress against the current year's budget, emerging issues and significant developments, this Budget Guidance will need to be kept under review and the timetable may need to be revised. In addition, as the Government announces its funding settlements for parts of the GLA Group this guidance may also need to be revised.
- 1.5 The information sought from functional bodies in this Budget Guidance is requested in accordance with the provisions of sections 110 and 125 of the GLA Act 1999.
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2. Key deadlines

2.1 The key deadlines for the GLA and its functional bodies are:

- ◆ Save for exceptional circumstances, within 25 working days of each quarter end, to supply a quarterly budget monitoring report in draft to the GLA and that within 10 additional working days thereafter to make the monitoring report publicly available;

and

- ◆ By Friday, 29 November 2019 in the light of preliminary draft budget proposals issued by the Mayor to make a full budget submission as specified below and at Annexes C and D.

- 2.2 The Mayor requires that the GLA and its functional bodies provide timely and high-quality information in their quarterly monitoring reports. Accordingly, save for exceptional circumstances, within 25 working days of each quarter end a quarterly budget monitoring report is to be supplied to the Mayor. Further, within 10 additional working days thereafter each member of the Group is to make that monitoring report publicly available.
- 2.3 The deadlines for quarter 4 are extended to the delivery of each body's statutory accounts by 31 May, with the proviso that the Mayor's Office see an early draft as far in advance as possible. The content and format of the quarterly monitoring reports is to be determined by each member of the Group in consultation with the Mayor's Office but will be expected to cover the issues specified in Annex B below.
- 2.4 Functional bodies must transparently present any changes to the Mayor's approved Budget which are made during the year, in particular for quarterly monitoring. Functional bodies should seek explicit approval for such changes where necessary. Where changes are made in year, a clear audit trail must be provided which reconciles the original Mayor's approved Budget with the latest Budget.
- 2.5 Budget submissions are expected to allow a financially balanced budget for 2020-21 to be set within the funding envelope specified and for the Mayor to consult on and approve his Capital Strategy.
- 2.6 The quarterly monitoring reports issued after 35 working days from the quarter end and the full budget submission due at the end of November will be public documents and must be put on a body's website.
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3. Control totals

- 3.1 The Mayor proposes that the GLA and its functional bodies should assume for planning purposes that their allocation of discretionary income from the Mayor for 2020-21 and future years is as specified below.

Discretionary Mayoral funding control totals (all £ millions)	2020-21	2021-22	2022-23	2023-24
GLA: Mayor	130.4	141.2	141.2	141.2
GLA: Assembly	8.1	8.2	8.4	8.4
MOPAC	787.0	817.7	908.9	931.9
LFC	399.3	407.8	416.6	429.3
TfL	1,870.3	1,890.5	1,911.1	1,932.1
LLDC	19.4	17.4	16.0	16.0
OPDC	9.6	9.6	9.7	9.7

(NB. Discretionary income is retained business rates, council tax precept income and Group wide reserves but excludes Government grants paid for the specific purposes of the GLA or functional bodies such as Home Office police grants).

- 3.2 The GLA numbers reflect the cost of GLA services only and not contributions to LLDC and OPDC which are now made directly at Group level. The GLA figures do not reflect those financial elements accounted for within the component budget that relate to the wider GLA Group budget (e.g. council tax and business rates transactions and the Business Rates Reserve and Mayoral Development Corporations Reserve). The figures also exclude unallocated Strategic Infrastructure Funding. Accordingly, the GLA: Mayor's budget submission should set out details of the GLA's core services only, and not include the items that will be accounted for within the final GLA Group items budget. The GLA's objective and subjective expenditure summaries should show new significant responsibilities, such as the devolution of the Adult Education Budget, gross.
- 3.3 A separate letter has been sent to the Assembly setting out the Mayor's proposed arrangements for the preparation of their budget. The Mayor expects the GLA: Assembly budget to be constructed under the same discipline as that for the rest of the GLA Group. In particular, while the Mayor recognises the nature of the Assembly's spend, if the Government were to reduce the GLA's funding they must expect to be impacted by this.

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- 3.4 MOPAC's control total assumes that, in the absence of any information to the contrary from the Government, the Band D police precept increases by only 1.99% in 2020-21 and increases at the same rate thereafter. The Mayor will determine the level of his police precept for 2020-21 following the Police Settlement which is assumed to be received in December 2019 in draft form and to be approved by Parliament in February 2020. MOPAC's control totals assume that £59.3 million of reserves are drawdown each year to support their 2021-22 and 2022-23 Budgets to ensure the Mayor's commitment to fund 1,000 more officers than would otherwise be affordable is met, given the Government's proposals on the treatment of future years' business rates growth. Figures for MOPAC include expenditure by the Violence Reduction Unit (VRU) on preventing violent crime.
- 3.5 A 1.99% increase in the non-police precept is assumed to be passed to LFC from 2020-21 onwards. The LFC are specifically asked to set out in their budget submission the indicative costs of implementing areas of improvements identified through internal learning and any the recommendations emerging from the Grenfell Inquiry.
- 3.6 TfL's control total for 2020-21 includes £1.010 billion of retained business rates. This relates to funding formerly paid as a capital investment grant, which the Mayor intends should be applied for capital purposes (either directly by TfL or via its funding of third parties) under normal circumstances, as well as £854.3 million of former revenue grants and £6 million of council tax funding. Thereafter, the capital element of business rates is inflated, whereas revenue funding from business rates and council tax is fixed.
- 3.7 LLDC's control totals include agreed sums carried forward from previous years but exclude GLA funding for capital financing costs. Funding for E20 is assumed to be provided as a loan to LLDC but the appropriate funding mechanism for E20 will be reviewed.
- 3.8 OPDC's control totals do not reflect consequential changes as a result of the successful Housing Infrastructure Fund (HIF) bid at this stage as details are still to be agreed with the Government.

4. Budget submissions

- 4.1 The budget to be submitted from the GLA and functional bodies by 29 November must:

- ◆ For revenue expenditure, cover at least the period 2019-20 to 2023-24;
 - ◆ Set out what is planned to be achieved in high-level terms over that period;
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- ♦ Cover Annex C to this guidance, which provides further detail on the revenue information to be provided; and
 - ♦ Include a Capital Strategy as described below and at Annex D of this document.

- 4.2 The GLA and its functional bodies should each ensure that their budget submission is made as one cohesive document which covers all the points in this guidance and its annexes and that there are no omissions. Budget submissions should be presented in a format that readily allows public scrutiny. The Mayor expects the GLA and its functional bodies to fully comply with the requirements set out in this guidance.
- 4.3 In the interests of efficiency and the need to consolidate into a group format and aid budget consultation, information must be presented in a similar format throughout the budget process. GLA officers will work with functional bodies to seek to minimise these burdens. Templates for budget submissions to meet the requirements of Annex C will be issued. Descriptions of the format to meet the requirements of Capital Strategy are set out at Annex D.
- 4.4 At this stage, no commitments are made about any additional resources that the Mayor may have available beyond the control totals set. In view of the financial uncertainty facing the GLA, the overall final financial position for 2020-21 is unlikely to be known before February 2020. Therefore, the GLA and functional bodies should not assume any revenue growth beyond their control totals.
- 4.5 The GLA and its functional bodies should also continue to look for and demonstrate tangible savings to be secured through collaboration across the GLA Group. This should reflect the opportunities identified by the GLA Group Collaboration Board covering the areas of Information Technology, Estate and Facilities Management, Procurement, Human Resources, and Finance and other Professional Services.
- 4.6 The planning guidelines will be kept under review for any indication that assumptions made about Government funding need to change. Further guidance may be issued once updated information on the new retained business rates regime becomes available. Other supplementary guidance will be circulated if necessary during the budget process.
- 4.7 Reserves held by the GLA and its functional bodies should only be used for the purpose they have been established for. Budget submissions must be explicit about plans for the use of reserves. Any plans to add to reserves must be fully explained and justified.
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- 4.8 CIPFA's Prudential Code includes the requirement for all members of the GLA Group to produce a Capital Strategy for 2020-21. The purpose of the GLA Group's Capital Strategy is to drive the Mayor's capital investment ambition, whilst ensuring the sustainable, long term delivery of services. The strategy will demonstrate that the GLA Group's capital expenditure and investment decisions are made in line with Mayoral priorities and properly take account of stewardship, value for money, prudence, sustainability and affordability, and give due regard to risk and reward. The GLA and each functional body are required to prepare their Capital Strategy on the basis set out in Annex D of this document.
- 4.9 The Mayor's final Budget proposals should be as up to date as possible and reflect latest information from the GLA and functional bodies. However, to prepare the Mayor's final budget proposals, the latest date that updated budget submissions from the GLA and functional bodies can be considered for inclusion in the Mayor's final budget is Friday 31 January 2020.

5. Social Integration and Equality, Diversity and Inclusion

- 5.1 Equality, Diversity and Inclusion are high priorities for the Mayor. He published Inclusive London, his Equality, Diversity and Inclusion (EDI) strategy in May 2018. This, together with All of Us: his strategy for Social Integration (SI) published in March 2018 build on his manifesto commitments and A City for All Londoners. The strategies aim to help the GLA Group to deliver the Mayor's ambitions for achieving equality and fairness and social integration for Londoners.
- 5.2 The Equality, Diversity and Inclusion Strategy sets out high-level cross cutting strategic EDI objectives for the GLA Group. The Social Integration Strategy defines social integration as the extent to which people positively interact and connect with others who are different to themselves. The strategy sets out a range of programmes and initiatives to promote social integration in London, including commitments that pertain to a range of GLA and GLA Group activities.
- 5.3 Over the coming months the GLA's Equality and Fairness Team will be liaising with relevant GLA teams and functional bodies to review their action plans for implementing the strategies' objectives.
- 5.4 These reviews will consider whether there has been sufficient resourcing and budget allocated to actions to improve Equality, Diversity and Inclusion. They will also look forward to actions to be taken in 2020-21 and the resourcing and budget necessary to deliver them.
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- 5.5 In addition, all members of the GLA Group are encouraged to assess their wider budget proposals to consider how they can broaden their activities to further address poverty, economic inequality and social integration in London, as well as addressing inequalities experienced by groups protected by equalities legislation.
- 5.6 Accordingly, each Chief Finance Officer must ensure that he or she works closely with colleagues in their organisation who are working on activity to deliver the EDI and SI strategies and provide a summary of how budget allocations will support delivery of the objectives, programmes, and actions in these strategies. This content will then be reflected by the Mayor in his Budget Consultation Document which is due to be published in mid to late December.
- 5.7 Actions taken, and progress made against the EDI objectives will also be reported in the Mayor's Annual Equality Report. This enables the group to meet its public-sector equality duty under section 149 of the Equality Act 2010 and its obligations under section 33 of the GLA Act 1999, as amended.
- 5.8 Any queries about this area of the Mayor's work, should be directed to Jeanette Baines-Burnett / Kathleen Kelly, Assistant Director of Communities and Social Policy (ADCommunitiesandsocialpolicy@london.gov.uk).

6. Environment

- 6.1 The Mayor's London Environment Strategy (LES) was published in May 2018 and describes the Mayor's vision for London in 2050 that will realise the potential of London's environment to support good health and quality of life and to make the city a better place to live, work and do business. The central aim is to take a range of immediate actions to improve the environment now, creating the path to make London greener, cleaner and ready for the future.
- 6.2 The GLA Group have a key role in delivering the actions in the LES and its implementation plan. Chapter 11 of the Strategy sets out the framework for GLA Group action, including using its procurement power to drive markets for green services and goods, trialling new technologies and approaches to bring confidence for wider market roll out, and acting as powerful demonstrators of best practice.
- 6.3 To support the GLA Group to deliver the actions, and share learning across the group, a GLA Environment Group of officers from all the functional bodies has been established. This group meets quarterly and monitors progress against the actions in chapter 11 of the Strategy.
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6.4 Budget proposals will need to ensure sufficient resourcing and budget necessary for the efficient and effective delivery of the LES. This includes implementing responsible procurement, reducing waste, reducing CO2 emissions, adapting to climate change, improving air quality, and increasing London's green cover. Proposals should demonstrate how they are contributing to key Mayoral ambitions set in the LES:

- Meeting the GLA Group carbon budgets which include a target of 60 per cent reduction in GLA Group CO2 emissions on 1990 levels by 2025;
- Achieving compliance with the zero emission targets for GLA Fleet set out in the Environment Strategy and Transport Strategy (e.g. GLA support fleet being zero emission capable by 2025);
- Achieving 65 per cent municipal waste recycling rate by 2030; and
- Helping meet the Mayor's target for London to be at least 50% green cover by 2050.

6.5 Accordingly, each Chief Finance Officer must ensure that he or she works closely with colleagues in their organisation and provide a summary of how budget allocations will support delivery of the objectives, programmes, and actions in the London Environment Strategy and Implementation Plan, including relevant targets at the London and Functional Body level. This content will then be reflected by the Mayor in his Budget Consultation Document which is due to be published in mid to late December.

6.6 If you have any queries about this area of the Mayor's work, please contact Luke Bruce, Interim Assistant Director of Environment (Luke.Bruce@london.gov.uk) up to the end of August and Aram Wood, the permanent Assistant Director from September 2019.

7. Managing the budget process

7.1 During the budget process the Mayor and his advisers will, whenever appropriate, use meetings with functional body members and chief officers to discuss the main strategic issues to be addressed in the Budget. There will be regular officer-level meetings throughout the budget development period, with specific meetings with the Mayor and/or his advisers as required.

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- 7.2 High-level meetings between the Mayoral team and the GLA and each of its functional bodies to consider the quarterly monitoring reports have been or are being scheduled. These will include discussion of progress with identifying and realising efficiencies and savings as well as potential future variances from the budget.
- 7.3 Functional bodies submissions by the end of November are to be the key content of the Budget and Performance Committee's meetings with each body. Accordingly, functional bodies are reminded that they must publish their budget submissions by no later than the 29 November 2019 to allow the Assembly to consider their proposals before their meetings.
- 7.4 The Budget and Performance Committee will be requesting information at key stages of the 2020-21 Budget process and there will be a requirement for representatives from each functional body to attend Committee meetings as appropriate.
- 7.5 The statutory framework for consultation on the Mayor's Draft Consolidated Budget is restricted by the time available (mid-December to mid-January). To complement and prepare for this part of the budget process, the GLA will maintain a dialogue with, and provide information to, key stakeholders. In particular, we will deliver a Talk London Survey, reflective of London's population, that provides an opportunity for City Hall to understand Londoners' priorities for improving the capital. This will be used to inform the budget planning process ahead of the formal statutory consultation, at which point Londoners will be invited to give their views on the priorities expressed via Talk London.
- 7.6 Final budget submissions are to be sent to David Gallie, Assistant Director – Group Finance, by no later than 12 noon on Friday, 29 November 2019. Oversight bodies have the authority to require interim submissions and scenario analyses to ensure an orderly process leading up to the 29 November deadline.
- 7.7 If any further information or clarification is required on this guidance then please contact: David Gallie, Assistant Director – Group Finance, on 020 7983 4968 or email: david.gallie@london.gov.uk.
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Annex A

Annex A Budget timetable

DATE	DESCRIPTION
June 2019	Mayor's Budget Guidance issued.
June – 29 November 2019	Budget preparation by the GLA and its functional bodies.
Late July – August 2019	Monitoring reports for 'quarter 1' to be supplied within 25 working days of quarter end. These quarterly monitoring reports are to be publicly available after a further 10 working days.
Late October – November 2019	Monitoring reports for 'quarter 2' to be supplied within 25 working days of quarter end. These quarterly monitoring reports are to be publicly available after a further 10 working days.
October / November 2019	Preliminary draft budget proposals prepared and issued for consultation with the GLA and its functional bodies.
29 November 2019	Responses received to draft budget proposals issued, including full and final budget submissions from the GLA and its functional bodies on all aspects of the 2020-21 Budget as specified in this guidance.
10 and 11 December 2019	Budget and Performance Committee meets functional bodies, except TfL, to scrutinise their budget submissions
Mid to late December 2019	Following the publication of the provisional Local Government, Fire and Police Settlements, issue the Mayor's Consultation Budget.
6 January 2020	Budget and Performance Committee scrutinises TfL's budget submission (this date subject to Assembly Oversight approval).
7 January 2020	Mayor meets Budget and Performance Committee on his Consultation Budget
29 January 2020	Assembly to consider Draft Consolidated Budget.
Late January – February 2020	Monitoring reports for 'quarter 3' to be supplied within 25 working days of quarter end. These quarterly monitoring reports are to be publicly available after a further 10 working days.
24 February 2020	Assembly to consider Final Draft Consolidated Budget.
28 February 2020	Statutory deadline by which the GLA precept must be approved and the Mayor's statutory Capital Spending Plan is published.

Annex B

Annex B Quarterly monitoring reports

1. The format and content of quarterly monitoring reports is for the GLA and each functional body to determine. The Mayor requires the GLA and functional bodies to present both financial and non-financial information in their monitoring reports.
2. With the exception of quarter 4, where deadlines for reporting will need to coincide with the publication of draft accounts by 31 May each year, quarterly monitoring reports are to be sent to David Gallie, Assistant Director – Group Finance within 25 working days after each 'quarter end'.

(NB: 'Quarter end' is to be defined by each member of the GLA Group as there are different financial periods used by different members of the Group. However, the financial period chosen should be the nearest to the calendar date for each quarter (i.e. 30 September, etc.).

3. Save for exceptional circumstances, reports are to be made publicly available 35 working days after the 'quarter end'. The discipline of ensuring that a report is made to the Mayor within 25 working days of the 'quarter end' also remains an absolute requirement. The Mayor expects that where a functional body might have had clearance issues, these should now have been satisfactorily resolved so that the 35-working day deadline will be fully met across the Group during 2019-20.
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Annex C

Annex C Revenue Budget Submission

Required by 29 November 2019 from the GLA and its functional bodies

Service Analysis

1. The main financial element of the final revenue budget submissions will be an analysis of budget proposals by service division / objective for the four years 2020-21 to 2023-24, with comparative figures for the approved 2019-20 Budget and forecast outturn for that year:

- ♦ Income to be raised and expenditure to be incurred in providing the complete range of services provided by the body;
- ♦ Capital financing costs (including capital expenditure charged to revenue);
- ♦ External interest receipts;
- ♦ All estimated income from general Government grants and specific Government grants paid solely for the purposes of that functional body issued by relevant Government departments (e.g. Home Office police grant);
- ♦ Transfers to and from earmarked and general reserves; and
- ♦ Any other adjustments.

2. If the service division / objective analysis is revised from that used for 2019-20, then the figures for the previous year should be re-stated on a comparable basis.
3. The 2020-21 budget proposals must be supported by an analysis of changes from the equivalent budgeted figures for 2019-20, separately identifying:

- ♦ Inflation;
- ♦ Changes in net service expenditure;
- ♦ Savings and efficiencies;
- ♦ General and specific government grants and business rates; and
- ♦ Use of reserves.

NB: TfL are specifically requested to additionally analyse changes in fares, charges and other income and to isolate the effects of inflation.

Subjective analysis

4. A subjective analysis must also be submitted covering the four-year plan period 2020-21 to 2023-24, including a comparison with 2019-20 figures.
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Annex C

Savings and efficiencies

5. The GLA and its functional bodies will be required to make savings and efficiencies to set a financially balanced budget for 2020-21 within the funding envelope and format specified in this Guidance.
6. The impact of savings and efficiency proposals for 2020-21 needs to be set out so that the Mayor's duties to consult on his budget can be discharged. Accordingly, the following information on savings is to be supplied by 29 November 2019:

- ♦ A description of the expected savings and efficiencies to be achieved in 2020-21 and later years. A sufficiently detailed description needs to be supplied so that the Mayor can fully understand the impact of the savings or efficiency proposal over the whole period;
- ♦ Savings and efficiencies must be shown in the analysis on a cumulative basis (i.e. ongoing savings and efficiencies should be reflected in all years) but also savings and efficiencies should be shown on an incremental basis (i.e. the additional net new savings and efficiencies to be made in each year) to transparently show the scale of new savings and efficiencies; and
- ♦ In accordance with CIPFA's draft FM Code, functional bodies are to consider setting out details of any 'savings to be required' arising from their budget submissions.

NB. The Government has required the GLA and its functional bodies to submit an Efficiency Plan. For the purposes of meeting these requirements, the Mayor's agreed Budget is assumed to be the Group's Efficiency Plan.

Reserves and general balances

7. To meet the requirement of the Local Government Act 2003 in respect of adequacy of reserves and demonstrate compliance with the guidance on local authority reserves and balances issued by CIPFA, the GLA and the functional bodies must provide:

- ♦ A statement of policy on reserves and contingencies. Reserves held by the GLA and its functional bodies should only be used for the purpose they have been established for. Proposed allowances for contingencies should be separately identified and justified;
 - ♦ Details of all reserves and general balances. General reserves should be distinguished from those held for service specific purposes. Budget submissions must be explicit about plans for the use of reserves;
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Annex C

- ♦ An analysis and explanation of the expected movements in reserves between the start and end of each year from 1 April 2019 to 31 March 2024;
- ♦ In the case of earmarked reserves held for purposes beyond 31 March 2021, an indication must be given as to when they are to be applied;
- ♦ Although it may not be definitive when reserves will be committed, best estimates should be made of the likely level of commitment so that reserves are not inadvertently over-stated; and
- ♦ In accordance with CIPFA's draft FM Code, functional bodies are to consider setting out an explanation of why their reserves need to not only be adequate but why they are necessary.

Inflation factors

8. There is no specific guidance for pay and inflation rates to be used but all members of the Group will need to take account of the Government's public sector pay policies and any nationally or locally agreed pay deals. However, the GLA and its functional bodies must be able to explain their inflation assumptions (for both pay and non-pay costs) and all figures must be at outturn prices.

Robustness of estimates and adequacy of reserves

9. To help the GLA meet the statutory requirements of the Local Government Act 2003, functional bodies must provide a report by their Chief Finance Officer (CFO) on the robustness of the proposed budget estimates and the adequacy of the proposed financial reserves. In accordance with CIPFA's draft FM Code, CFOs are to consider including in their reserves statement details of where their actual level of reserves have deviated significantly from forecasts.

Capital Financing Costs

10. Capital financing costs, broken down between provision for repayment of debt and interest need to be shown for the period 2020-21 to 2023-24.
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Annex D

Annex D Capital Strategy

1. The Mayor requires that a GLA Group-wide Capital Strategy be prepared as part of his 2020-21 Budget. For the avoidance of doubt, the GLA Group Capital Strategy replaces the GLA Group Capital Spending Plan that has been published in previous years. The elements of the GLA Group Capital Spending Plan that are required under section 122 of the GLA Act 1999 are to be included in the GLA Group Capital Strategy.
 2. All Members of the GLA Group are therefore requested to include their draft Capital Strategy in their budget submission, due at the end of November 2019, and specifically ensure that the requirements set out below are included.
 3. The draft Capital Strategies submitted will be incorporated into a Group-wide Capital Strategy to be considered as part of the budget process. Where necessary the Capital Strategy will be updated at the draft and final draft stages of the Mayor's Budget with a final version prepared and published before 28 February 2020.
 4. The final Capital Strategy will be sent to the Secretary of State (MHCLG) as part of meeting the requirements of the GLA Act 1999.
 5. In specifying the following requirements, the Mayor has balanced the need for each member of the Group to produce their own Capital Strategy with the necessity to produce a coherent and consistent Group-wide Capital Strategy, whilst also seeking to minimise the additional workload involved. Accordingly, the requirements specified are the minimum needed. Members of the GLA Group can of course add more detail as they see fit but functional bodies are requested to ensure that they follow the prescribed format.
 6. Although the Capital Strategy encompasses capital expenditure, capital financing and treasury management, it is proposed that certain detailed treasury management aspects, in particular the detailed investment strategy, will continue to be reported as part of each member of the Group's annual Treasury Management Strategy Statement (TMSS), rather than to be wholly included in the Mayor's Budget. However, the Capital Strategy will need to include the key principles and issues of each body's debt and investment management approach and will include key statutory requirements such as the forecast capital financing costs and the authorised limit and operational boundary for external debt.
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Annex D

7. The Capital Strategy will need to be able to clearly reference relevant detail in the TMSS and vice versa, therefore the documents should be prepared in parallel. In line with best practice, the TMSS should be a 'living' document subject to in-year review and amendment, and therefore may be seen as a detailed supplement to the Capital Strategy.
 8. The Mayor requires that each functional body set out a 20-year Capital Requirement, a 20-year Capital Investment Plan and a 20-year Capital Funding Plan. Further details on these are set out below.
 9. The 20-year Capital Requirement should be a statement setting out the capital needs for a minimum of 20 years. The 20-year Capital Investment Plan and 20-year Capital Funding Plan will set out the expenditure and funding plans underpinning the Capital Requirement.
 10. The first five years of the Capital Strategy should include the same level of detail as was included in the Mayor's 2019-20 Capital Spending Plan; thereafter, from 2024-25 onwards, the expenditure and funding should be grouped into five-year buckets.
 11. The 20-year Capital Requirement should reflect the Mayor's policy priorities and the needs of the service. It is intended that this Capital Requirement will reflect, as appropriate, the Mayor's published long-term strategies and plans, for example, the Mayor's Transport Strategy.
 12. In addition, it should be informed by the GLA's Infrastructure Cost and Funding model which specifies London's long-term strategic infrastructure requirements, their costs and the current funding gap. In particular, the GLA's Housing and Land Directorate affordable housing model needs to form the basis of the affordable housing programme of the housing part of the GLA's Capital Strategy.
 13. The Capital Requirement should be underpinned by the 20-year Capital Investment Plan, which will set out detailed plans for years 1 to 5 and then group expenditure into 5-year 'buckets' for years 6 to 20. In grouping expenditure from years 6 to 20 sufficient detail should be provided to allow for meaningful understanding and scrutiny of the plans set out.
 14. It is expected that the 20-year Capital Funding Plan will result in the identification of a funding gap between years 6 to 20. However, the funding and expenditure set out for the first five years must be balanced.
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15. A critical part of the Capital Strategy is to set out how the 20-Year Capital Investment Plan is reconciled with the 20-year Capital Funding Plan. In setting out their 20-year Capital Investment Plan, each member of the Group will need to explain how this 'gap' has been / is to be managed in an 'Additional Funding Needed' statement. In addition, a reconciliation needs to be made between the first five years of last year's Capital Strategy and the first five years of the new Capital Strategy.
 16. In accordance with CIPFA's draft FM Code, functional bodies are to consider making a Financial Risk Assessment. This assessment would focus on stress testing capital receipts assumptions but would also, within the bounds of commercial confidentiality, look at exit plans for key contractors. Also, in accordance with the draft Code, all members of the GLA Group should consider reviewing their capital expenditure forecasts to ensure they are not overly optimistic and so help minimise slippage.
 17. The GLA and functional bodies are expected to achieve an average of 50 per cent affordable housing on any new residential development sites brought to market or delivered directly, subject to service-specific statutory responsibilities. In developing financial assumptions underpinning their disposal programme, the GLA and functional bodies should note that:
 - the Mayor expects sites to be brought forward without delay and assessments against assumed capital receipts and percentages of affordable housing need to be made initially on an individual basis;
 - a 'portfolio' approach to meeting the 50 per cent target can be adopted (i.e. as long as the GLA or a functional body's disposal programme achieves 50 per cent affordable housing on relevant sites overall, individual sites need not deliver this level of affordable housing, subject to each site delivering at least 35% and the required tenure split) provided there is an agreement in place with the Mayor and landowner, with commitments to a programme of identified sites (NB: The tenure of the additional affordable housing above 35% of habitable rooms to achieve 50% is flexible and should take into account the needs to maximise affordable housing);
 - planning policy requires that their duty to deliver 'best consideration' will involve adherence to the Mayor's 50 per cent target for affordable housing; and
 - further details are set out in the Mayor's Affordable Housing and Viability Supplementary Planning Guidance and Draft London Plan.
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18. All members of the GLA Group are requested to prepare a draft Capital Strategy with the following headings and the information described.

Intention: An introductory statement of the intended outcomes of the Capital Strategy.

Benefits: A statement of the benefits of preparing a Capital Strategy.

Approach: A statement of each body's approach to preparing a Capital Strategy.

Influences: A statement on the main influences on the Capital Strategy. This should include consideration of internal and external influences.

Policies: A statement on how the Capital Strategy is aligned to the Mayor's policies. This should include the inter-relationship with each body's Investment Strategy and any commercialisation initiatives. (NB: Each member's Treasury Management Strategy Statement, which will incorporate its Investment Strategy, will be a separate document from the Capital Strategy).

20 Year Capital Requirement: A statement setting out the capital needs for a minimum of 20 years. This section should be a high-level summary of the capital investment needs of the functional body, aligned to corporate priorities. Functional bodies should include some commentary on priority capital programmes included in their Capital Requirement and include details of how the requirement links to Mayoral priorities. A high-level action plan should be included detailing how the requirement is intended to be achieved; for later years this may take the form of a set of intentions or options to be explored.

20-Year Capital Investment Plan: A 20-year Capital Investment Plan underpinning the 20-year Capital Requirement is to be set out. It is recognised that some plans included in the statement of Capital Requirement may not be of sufficient certainty to include in the 20-year Capital Investment Plan. Where programmes mentioned in the Capital Requirement are not included in the Investment Plan, this must be identified and explained in the commentary accompanying the Investment Plan.

A schedule (1a) must set out the planned expenditure for each of the first five years (2019-20 forecast outturn to 2023-24) and also the capital financing costs for these five years.

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A schedule (1b) is to set out the expenditure in five-year buckets. Schedule 1a should be at the same level of detail as was included in the Mayor's 2019-20 Capital Spending Plan. Schedule 1b should group expenditure into summarised headings; these headings must be of sufficient detail to allow for meaningful understanding and scrutiny of the plans set out.

The GLA: Mayor and functional bodies should include a brief description of the expenditure summarised under the headings in the schedules. Schedule 1a must sum to the first five years of the funding plan (see schedule 2a below) but Schedule 1b setting out expenditure plans for years 6 to 20 is not expected to sum to the total for years 6 to 20 of the funding plans (see schedule 2b below).

Schedule 1a setting out the first five years of expenditure is to be the approved Capital Spending Plan and must be accompanied by details on:

- Schemes removed;
- Projects re-profiled; and
- New schemes added

from the previously agreed Capital Spending Plan set as part of the 2019-20 Mayor's Capital Spending Plan.

20-year Capital Funding: A schedule (2a) is to set out the funding plan for each of the first five years of the Capital Strategy. This should be at the same level of detail as was included in the Mayor's 2019-20 Capital Spending Plan.

A schedule (2b) is to set out the funding in five-year buckets. Schedule 2b should group funding into summarised headings and these heading must be of sufficient detail to allow for meaningful understanding and scrutiny of the plans set out.

The GLA: Mayor and functional bodies should include commentary on the funding sources identified and details of the risks and levels of certainty associated with them. As set out above, for most functional bodies there will be a funding gap between the funding identified in years 6 to 20 of the funding plan (schedule 2b) and years 6 to 20 (schedule 1b) of the 20-year Capital Investment Plan. How this gap is to be managed needs to be explained in the 'Additional Funding Needed' statement.

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Additional Funding Needed: A statement on how the gap between years 6 to 20 of the Capital Investment Plan and years 6 to 20 of the Capital Funding Plan may be closed. This may, for example, include details such as plans for lobbying or calls on funding from the Government.

Risk: The 20-year Capital Investment Plan should include a statement on the related risks in the plan and how they are to be managed, together with a summary of the resources and support available to the functional body in developing its Capital Strategy.

Appraisal: A statement on how proposals have been developed, appraised and monitored by the governance process.

Chief Finance Officer sign off: A statement from the Chief Finance Officer explicitly reporting on the affordability and risk associated with the delivery of the Capital Sending Plan.

In addition, the GLA and functional bodies must set out over the period of the first five years of the Capital Strategy proposals for their:

- Authorised Limit for External Debt; and
 - Operational Boundary for External Debt.
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