

London Councils' Transport and Environment Committee

Revenue Budget and Borough Charges 2016/17

Item no: 09

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Summary

This report details the outline revenue budget proposals and the proposed indicative borough subscription and charges for 2016/17.

These proposals were considered by the Executive Sub-Committee at its meeting on 24 November. The Executive Sub-Committee agreed to recommend that the full Committee approves these proposals.

Recommendations

The Committee is asked to approve:

- The changes in individual levies and charges for 2016/17 as follows:
 - The Parking Core Administration Charge of £1,500 per borough and for TfL (2015/16 - £1,500; paragraph 37);
 - The total Parking Enforcement Service Charge of £0.4681 which will be distributed to boroughs and TfL in accordance with PCNs issued in 2014/15 (2015/16 - £0.4333 per PCN; paragraphs 35-36);
 - No charge to boroughs in respect of the Freedom Pass Administration Charge, which is covered by replacement Freedom Pass income (2015/16 - £8,674; paragraph 16);
 - The Taxicard Administration Charge to boroughs of £338,182 in total (2015/16 - £338,182; paragraphs 17-19).
 - No charge to boroughs in respect of the Lorry Control Administration Charge, which is fully covered by estimated PCN income (2015/16 – nil charge; paragraphs 20-21);
 - The Parking and Traffic Appeals Charge of £33.32 per appeal or £29.90 per appeal where electronic evidence is

provided by the enforcing authority (2015/16 - £33.40/£29.97 per appeal). In addition, a new differential charge is proposed for hearing Statutory Declarations of £28.17 for hard copy submissions and £27.49 for electronic submissions (2015/16 - £33.40/£29.97 per SD) (paragraph 28);

- Congestion Charging Appeals – to be recovered on a full cost recovery basis, subject to the continuing agreement of the GLA under the contract arrangements that run until December 2016 (paragraph 29);
 - The TRACE (Electronic) Charge of £7.31 per transaction (2015/16 - £8.60; paragraphs 33-34);
 - The TRACE (Fax) Charge of £7.48 per transaction (2015/16 - £8.80; paragraphs 33-34); and
 - The TEC¹ Charge of £0.17 per transaction (2015/16 - £0.20; paragraphs 33-34);
- The provisional gross revenue expenditure of £378.786 million for 2016/17, as detailed in Appendix A;
 - On the basis of the agreement of the above proposed charges, the provisional gross revenue income budget of £378.143 million for 2016/17, with a recommended transfer of £643,000 from uncommitted Committee reserves to produce a balanced budget, as shown in Appendix B;
 - From proposed reserves of £643,000, a sum of £10,000 be repatriated to each borough (and TfL) from TEC uncommitted reserves, amounting to £340,000 in total, in the form of a one-off payment, as per paragraph 54; and
 - The proposed changes to the Committee's formal policy on reserves and the transfer of a further sum of £500,000 from the Committee's general reserves to the specific reserve for the 2020 Freedom Pass reissue, as detailed in paragraphs 56-64.

The Committee is also asked to note the current position on reserves, as set out in paragraphs 52-55 and Table 9 of this report and the estimated total charges to individual boroughs for 2016/17, as set out in Appendix C.1.

¹ The system that allows boroughs to register any unpaid parking tickets with the Traffic Enforcement Centre and apply for bailiff's warrants.

Introduction

1. This report details the outline revenue budget proposals and the proposed indicative borough subscription and charges for 2015/16. These proposals were considered by the Executive Sub-Committee at its meeting on 24 November. The Executive Sub-Committee agreed to recommend that the full Committee approves these proposals.
2. The report will, therefore, examine the key features of the proposed budget for 2016/17 and make proposals as to the level of charges for the Committee's consideration.

Proposed Revenue Budget 2016/17 - Overview

3. The proposals in this report incorporate the following assumptions:
 - Estimated savings of £426,000 arising from the change of Parking Managed Services contractor, reflecting the full year effect of Northgate's contract pricing structure that became effective in July 2015;
 - Total savings of £286,242, or £8,674 per borough, from the Freedom Pass administration fee becoming fully funded by income receipts from replacing Freedom Passes that are lost or damaged;
 - Additional London Lorry Control PCN income of £200,000 (£50,000 of which will fund work on the review and development of the scheme), reflecting actual collection levels over the previous two financial years. The London Lorry Control scheme remains fully financed from income receipts;
 - Projected savings of £107,000 in 2016/17 arising from the move from Angel Square to Chancery Exchange, primarily due to the necessary slight overlap of premises costs in 2015/16 and from anticipated lower service charges at Chancery Exchange. This is offset by an additional annual depreciation charge of £84,000 in respect of the refurbishment works undertaken at Chancery Exchange during 2015/16, leaving a net benefit of £23,000.
 - The deletion of offsetting income and expenditure budgets of £977,000 in respect of the contract with the British Parking Association (BPA) for hearing Parking Appeals on Private Land (POPLA), which expired on 30 September 2015.
 - An increase in the TfL element of the freedom pass settlement for 2016/17 of £6.018 million, or 1.84%;
 - A reduction in the ATOC element of the freedom pass settlement of £2.814 million, or 13.19%;
 - A reduction in the budget for other bus operators for local journeys originating in London of £500,000, or 22.7%, after allowing for fares inflation of 2.3%. This reduced sum reflects the outturn projection for 2016/17, based on current claim trends being lodged by operators.

- TfL will provide an annual fixed S.159 grant of £9.704 million, inclusive of estimated Annual Taxicard Tariff inflation of 0.8% for Taxicard in 2016/17, compared to the base £9.627 million for 2015/16. The total borough contribution towards the Taxicard scheme in 2016/17 is estimated to be £2.658 million, although this will be adjusted to reflect actual borough budgets when they are confirmed in February 2016;
 - The annual Freedom Pass survey and reissue costs budget to remain at the current year's level of £1.518 million;
 - An estimated 1% cost of living increase on all salary costs, including adjudicators' fees. In addition, there will be an estimated further 2.27% increase in payroll costs due additional employers NICs payable as a result of the state pension reforms. Increased costs will also be payable in respect of new arrangements to recover past service pension deficits.
 - The overall staffing budget continues to include a £30,000 provision for maternity cover and the vacancy level remains at 2%;
 - A zero inflationary increase in all other running cost budgets for 2016/17, unless subject to binding contractual increases;
 - Additional central recharges to TEC of £158,000 arising from the loss of the BPA contract, which will need to be respread across all other TEC services; and
4. The proposals in this report recommend the following:
- The Parking Core administration charge being held at the 2015/16 level of £1,500;
 - A reduction in the unit cost of a manual parking appeal charged to boroughs and TfL street management of £0.08 per appeal, or 0.23%. For appeals where evidence is submitted electronically, the unit cost will reduce by £0.07 or 0.25%. For the first time in 2016/17, a differential unit charge is proposed for dealing with statutory declarations, which brings additional savings of £5.15 per manual transaction and £2.41 per electronic transaction;
 - An increase in the Parking Enforcement service charge of £0.0348 per PCN, or 8.03%, which will be apportioned to boroughs and TfL in accordance with the total number of PCNs issued by enforcing authorities in 2014/15;
 - No charge to boroughs for the Freedom Pass administration charge for 2016/17, delivering a saving of £8,674 per borough;
 - The total Taxicard administration charge of £338,000 being held at the current year's level, which will be apportioned to boroughs in accordance with the scheme membership as at 30 September 2015;
 - No charge to boroughs for the London lorry control scheme administration charge for 2016/17, as for the current year;
 - A reduction in the TRACE electronic charge of £1.29, or 15% per transaction;

- A reduction in the TRACE fax charge of £1.32, or 15%, per transaction; and
 - A reduction in the TEC charge of £0.03 per transaction, or 15%.
5. These charges are reviewed annually in order to identify efficiencies and, where appropriate, reduce charges further for boroughs and TfL.
 6. The following paragraphs detail the main proposed budget headings for 2016/17 and highlight any significant changes over 2015/16. The proposed level of expenditure for 2016/17 amount to £378.786 million. A sum of £366.523 million relates to direct expenditure on the transport operators providing the Freedom Pass and the Taxicard schemes. After excluding the £340,000 in respect of the proposed one-off payment to boroughs in 2016/17, this leaves £11.923 million relating to expenditure on parking and traffic related traded service and other operating expenditure. This compares to a comparable sum of £12.128 million for the current year, a reduction of £205,000, or 1.7%.

Freedom Pass

7. The main settlement with TfL for concessionary travel on its service is £333.94 million, an increase of £6.108 million, or 1.84%, on the figure of £327.922 million for 2015/16. This reflects fares inflation of 1%, a 0.3% reduction in journey volumes and 1.1% in respect of new services, covering the recent transfer of services from ATOC. This issue is explored in greater details in a separate report on this agenda.
8. The budget in respect of the Association of Train Operating Companies (ATOC) has been reduced by £2.997 million on the figure of £21.334 million for the current year to reflect the recent transfer of services to TfL. After adding fares inflation of 1%, the total budget is £18.52 million, an overall reduction of £2.812 million, or 13.2%.
9. The budget of £2.2 million for payments to other bus operators for local journeys originating in London has been reduced by a net figure of £500,000, or 22.7%, to £1.7 million, after allowing for fares inflation of 2.3%. This reduced sum reflects the projection for 2016/17, based on current claim trends being lodged by operators.
10. The budget for the freedom pass issuing costs was £1.518 million for 2015/16. For 2016/17, it is proposed that the budget remains at this level and continue to be reviewed each year in the light of immediate reissue numbers in the run up to the next substantive reissue exercise in 2020. In addition, there could be potential increases in contractor costs in 2016/17, associated with the provision of the customer call centre operations, and these will to be contained with the overall budgetary provision.
11. For income in respect of replacement Freedom Passes, trends indicate that despite the reissue of nearly 1 million freedom passes over the past two years, accrued income continues to exceed the approved budget of £500,000, so it is proposed to increase the income budget for replacement passes by £50,000 to £550,000. As stated in paragraphs 3 and 4 and detailed in paragraph 16 below, it is proposed that the cost of administering the Freedom Pass scheme will be fully funded by this income stream in 2016/17.

12. As agreed in setting the budget for the current year in December 2014, any annual surplus arising from both the freedom pass issuing costs budget of £1.518 million (paragraph 10 above) and replacement freedom passes income budget of £550,000 (paragraph 11 above) will be transferred to a specific reserve to accumulate funds to offset the cost of the next pass reissue exercise scheduled for 2020. At its October 2015 meeting, this Committee agreed to transfer £500,000 from general reserves to this specific reserve to kick start this process and the position will be reviewed annually to ensure a substantive fund is on track to be accumulated for the 2020 reissue.
13. Following the meeting of the TEC Executive Sub-Committee on 24 November, it is proposed to transfer an additional £500,000 from uncommitted general reserves to the specific reserve to fund the cost of the next pass reissue exercise scheduled for 2020.
14. A summary of the estimated freedom pass costs for 2016/17, compared to the actual costs for the current year, can be summarised in Table 1 below:

Table 1 – Comparative financing of Freedom Pass 2015/16 and 2014/15

Estimated Cost of Freedom Pass	2016/17(£000)	2015/16(£000)
TfL Settlement	333,940	327,922
ATOC Settlement	18,520	21,334
Non TfL Bus Operators Settlement	1,700	2,050
Survey and Reissue Costs	1,518	1,518
Total Cost	355,678	352,974

15. The total cost of the scheme is fully funded by boroughs and the sum payable by boroughs in 2016/17 of £355.678 million compares to £352.974 million payable for 2015/16, an increase of £2.704 million or 0.77%. The majority of costs payable by boroughs will be apportioned in accordance with usage data, in accordance with the agreed recommendations of the arbitrator in 2008.
16. The administration of the freedom pass covers London Councils costs in negotiating the annual settlements and managing the relationships with transport operators and contractors. For 2016/17, the total cost is estimated to be £386,816, compared to £371,899 in 2015/16. This equates to £11,722 per borough. However, it is proposed to use a proportion of the income accrued from the replacement of lost and damaged Freedom Passes (refer paragraph 11) to levy a nil charge in 2016/17, which members are asked to approve. This position will be reviewed annually to ensure forecast income streams continue to cover the costs of administering the scheme.

Taxicard

17. As stated in paragraph 3, TfL will provide an annual fixed S.159 grant of £9.723 million, inclusive of Annual Taxicard Tariff inflation for 2016/17 of £77,000 (0.8%). The total borough contribution towards the Taxicard scheme in 2016/17 is estimated to be £2.658 million, although the decision on boroughs' contributions is a matter for boroughs to take individually and will be confirmed by February 2016. The base budgetary provision for the contract with CityFleet Networks Limited for 2016/17 will, therefore, be £12.362 million, a provisional increase of £77,000 on the revised budget of £12.285 million for the current year.

18. The cost of administration of the Taxicard Scheme is estimated to be £528,735 in 2016/17 compared to £478,950 in 2015/16. After excluding the contribution from TfL towards these costs of £104,768 and anticipated income of £36,000 from charging for replacement taxicards, the net cost to be charged to boroughs in 2016/17 is £387,967. However, as a proportion of the increase in the administration cost is due to an increase in existing overheads apportioned to the service following the end of the POPLA contract, it is proposed to use uncommitted general reserves held by the Committee to hold the charge at the 2015/16 level of £338,182.
19. The active Taxicard membership data as at 30 September 2015 is 67,780, compared to 76,018 as at 30 September 2014, a reduction of 8,238, or 10.8%, due to further cleansing of the membership data in accordance with the Executive Sub-Committee's decision of July 2014. The reduction in the spreading base has increased the underlying unit cost of a permit from £4.45 to £4.99 per member.

Lorry Control Scheme

20. This is calculated in the same manner as the freedom pass and taxicard administration charge, although it is apportioned to boroughs in accordance with the ONS mid-year population figures for, in the case of 2016/17, June 2014. The total cost of administering the scheme is estimated to be £674,119 in 2016/17, compared to £541,793 in 2015/16. The increase is attributable to additional staffing resources to provide targeted input in this area, which in turn has led to an increase in the share of central overheads, which in turn have separately also increased following the end of the POPLA contract. In addition, a sum of £50,000 has been earmarked for the review and development of the scheme in 2016/17.
21. However, after analysing receipts from PCNs issued in relation to the scheme over the past two financial years, it is proposed to increase the income target from £550,000 to £750,000, meaning that there will be a continuation of the nil charge to the 29 participating boroughs plus TfL towards the scheme in 2016/17. Again, this position will be reviewed annually to ensure forecast income streams continue to cover the costs of administering the scheme.

Environment and Traffic Adjudicators (ETA) Fees

22. The budget for adjudicators' fees and training will be increased for 2016/17, in accordance with the recommendation of the Senior Salaries Review Board in respect of the 2015 pay award. This mechanism, which was agreed by TEC in November 2001, keeps the Adjudicators' pay at 80% of that for Group 7 full-time judicial appointments outside London. This hourly rate increases by £0.60, or 1% from £60 to £60.60, inclusive of employers' National Insurance Contributions.
23. The estimated volume of ETA appeals for 2016/17, based volumes in the first half of 2015/16, adjusted for known developments, is 52,885, significantly less than the 69,434 level for the current year, although the actual number of appeals heard in 2014/15 was 56,610 including Statutory Declarations, Moving Traffic Offences and Lorry Ban Appeals. Whilst this indicates that there is a downward trend in the number of appeals, services were interrupted during the summer with the move of the appeals hearing centre from Angel Square to Chancery Exchange and the change of parking managed services provider from Capita to Northgate, which involved the introduction of an entirely new IT system. This factor may also have contributed to the reduction in actual appeal numbers.

24. Based on the average throughput of appeals for the first six months of the current year of 2.76 appeals heard per hour (compared to 3.03 appeals per hour when the current year's budget was set last December), the ETA adjudicator fees base budget of £1.374 million has been reduced by £224,000 to £1.15 million for 2016/17 to reflect the current volumes and throughput rate, and then inflated by £12,000 to £1.162 million to reflect the pay award.

Road User Charging Adjudicators (RUCA) Fees

25. The estimated volume of RUCA appeals for 2016/17, based volumes in the first half of 2015/16, adjusted after consultation with TfL, is 6,167, a reduction on the figure of 7,352 for the current year. The actual number of RUCA Appeals dealt with in 2014/15, including Statutory Declarations, was 6,534.

26. The budget for RUCA adjudicators' fees has, therefore, been increased by £74,000 from £123,000 to £197,000 for 2016/17 to reflect current costs, and then inflated by £2,000 to £199,000 to reflect the pay award. The Committee is currently reimbursed at cost by the GLA/TfL for the hearing of RUCA appeals.

Appeals Unit Charges 2016/17

27. The estimated overall cost for hearing appeals for 2016/17 is laid out in Table 2 below:

Table 2 – Proposed Unit Cost for Appeals 2016/17

	ETA	RUCA	Total
Estimated Appeal Nos.	52,885	6,167	59,052
Average Case per hour	2.76	1.88	2.63
Adjudicator Hours	19,161	3,277	22,438
Expenditure	£	£	£
Adjudicators Fees	1,162,429	198,598	1,361,028
Northgate Variable Cost	349,103	42,070	391,173
Postage/Admin	116,347	13,567	129,914
Total	1,627,879	254,236	1,882,115
Income			
Hearing Fees	1,627,879	254,236	1,882,115
Average Indicative Unit Cost of Appeal	30.78	41.23	31.87

28. For ETA appeals, based on an estimated 52,885 appeals and a projected throughput rate of 2.76 cases being heard per hour during 2016/17, it is proposed that the indicative hard copy unit ETA appeal cost for 2016/17 is £33.32, a reduction of £0.08 or 0.23% on the charge of £33.40 for 2015/16. For appeals where electronic evidence is provided by an enforcing authority, it is proposed that the unit cost will reduce by a further £3.42 to £29.90 in recognition of the reduced charge from the contractor. In addition, under the new contract, it is possible to offer boroughs a differential charge for the processing of ETA statutory declarations. For hard copy statutory declarations, the proposed unit charge will be £28.17 compared to the charge of £33.40 for the current year, which currently mirrors the hard copy appeal charge. This represents a reduction of £5.23, or 15.65%. For electronic statutory declarations, the proposed unit

charge will be £27.49, a reduction of £2.48, or 8.28% on the electronic appeal unit charge for the current year. This demonstrates that there remains a clear financial incentive for boroughs to move towards submitting electronic evidence under the new contract arrangements. The Committee is asked, therefore, to approve these appeal charges to users for 2016/17.

29. London Councils is contracted to provide the RUCA appeals service up until December 2016 and it is assumed that there will be a continuation of the agreement for TfL/GLA to reimburse London Councils on an actual cost-recovery basis for the variable cost of these transactions, rather than on a unit cost basis. Continuation of this agreement into 2016/17 will ensure that a breakeven position continues in respect of these transactions, so the estimated cost of £254,236 for hearing an estimated 6,167 RUCA appeals will be fully recovered. The fixed cost element of the contract, based on the split of actual appeals heard in 2014/15, is £471,904, a reduction of £21,156 of the recharge of £493,060 for 2015/16, although London Councils has the right to further review this sum if operational circumstances change.

Parking Managed Services – Other Variable Charges to Users

30. These variable charges form part of the parking managed service contract provided by Northgate, the volumes of which the Committee has no control. The individual boroughs are responsible for using such facilities and the volumes should not, therefore, be viewed as service growth. The volumes are based on those currently being processed by the contractor and are recharged to the boroughs and TfL as part of the unit cost charge. Current trends during the first half of 2015/16 suggest that the TRACE electronic and the TEC volumes are in line with the current year, but that there has been a significant increase in the TRACE fax transaction volumes over 2015/16. The estimated effect on expenditure trends are illustrated in Table 3 below:

Table 3 – Estimated expenditure on variable parking services 2016/17 and 2015/16

2016/17	Estimated Volumes (Nos)	Contractor Charge (£)	Expenditure Budget (£)
TRACE (Electronic)	46,100	1.69	77,909
TRACE (Fax Transaction)	16,516	3.72	61,440
TEC	599,204	0.09	53,928
Total	-	-	193,277
2015/16	Estimated Volumes (Nos)	Contractor Charge (£)	Expenditure Budget (£)
TRACE (Electronic)	47,260	4.77/1.69	116,260
TRACE (Fax Transaction)	6,294	12.27/3.72	36,867
TEC	602,234	0.1057/0.09	56,565
PED/PIE	28	0.1057/0.09	3
Total	-	-	209,695

31. The estimated reduction in expenditure between 2015/16 and 2016/17, due to the significant increase in TRACE fax volumes, combined with lower unit costs from Northgate, is £16,418.
32. The corresponding estimated effect on income trends are illustrated in Table 4 below:

Table 4 – Estimated income accruing from variable parking services 2016/17 and 2015/16

2016/17	Estimated Volumes (Nos)	Proposed Unit Charge (£)	Income Budget (£)
TRACE (Electronic)	46,100	7.31	336,991
TRACE (Fax Transaction)	16,516	7.47	123,540
TEC	599,204	0.17	101,865
Total	-	-	562,396
2015/16	Estimated Volumes (Nos)	Actual Unit Charge (£)	Income Budget (£)
TRACE (Electronic)	47,260	8.60	406,436
TRACE (Fax Transaction)	6,294	8.80	55,387
TEC	602,234	0.20	120,447
PED/PIE	28	0.20	6
Total	-	-	582,276

33. The corresponding estimated effect on income, between 2015/16 and 2016/17, due to the projected increase in TRACE fax volumes and the proposed user charges is a reduction of £19,880, leading to a net overall reduction in budgeted income of £3,462. The charging structure historically approved by TEC for the provision of the variable parking services (excluding appeals) includes a profit element in each of the charges made to boroughs and other users for these services. This differential has been maintained in the proposed charges for 2016/17, which takes on board the full year effect of the revised charges from the start of the new contract in July 2015.
34. The Committee is asked, therefore, to approve the following non-appeal charges to users for 2016/17:
- The TRACE (Electronic) charge of £7.31 per transaction, a reduction of £1.29, or 15%, on the £8.60 charge for the current year;
 - The TRACE (Fax) charge of £7.48 per transaction, a reduction of £1.32, or 15%, on the £8.80 charge for the current year; and
 - The TEC charge of £0.17 per transaction, a reduction of £0.03, or 15%, on the £0.20 charge for the current year.

Parking Enforcement Service Charge

35. The majority of this charge is made up of the fixed cost element of the parking managed service contract provided by Northgate and the provision of accommodation and administrative support to the appeals hearing centre. The calculation for 2016/17 reflects the full year effect of the new managed service contract with Northgate and the move to the new premises of the appeals hearing centre at Chancery Exchange. However, it also reflects the fact that a proportion of the hearing centre premises costs and other existing overheads can no longer be charged to POPLA now that the contract with the BPA has ended. The total fixed cost is allocated to users in accordance with the number of PCNs issued, which for 2016/17 will be those issued by enforcing authorities during 2014/15, which is detailed in Appendix D. For 2016/17, expenditure of £2.694 million needs to be recouped, compared to £2.653 million for 2015/16, which is detailed in Table 5 below:

Table 5 – Breakdown of Parking Enforcement Charge 2016/17

	2016/17 (£000)	2015/16 (£000)
Fixed Contract Costs	1,064	1,238
Hearing Centre Premises Costs	620	518
Direct Staffing Costs	542	477
General Office Expenditure	190	160
Central Recharges	278	260
Total	2,694	2,653

36. After top-slicing this amount for the revised fixed contract sum of £472,000 attributable to congestion charging and LEZ offences rechargeable to the GLA (refer paragraph 29), a total of £2.222 million remains to be apportioned through the 4.746 million PCN's issued by boroughs and TfL in 2014/15 in respect of parking, bus lane, moving traffic and lorry ban enforcement, compared to 4.985 million issued in 2013/14. The 239,000 decrease in the number of PCNs issued over the two comparative years decreases the spreading base, which together with a marginal increase in costs leads to an increase in the actual unit charge to boroughs and TfL of £0.0348, or 8.03%, from £0.4333 to £0.4681 per PCN for 2016/17, which the Committee is asked to approve.

Parking Core Administration Charge

37. The core subscription covers a proportion of the cost of the central management and policy work of the Committee and its related staff, accommodation, contract monitoring and other general expenses. It is charged to boroughs and TfL at a uniform rate, which for 2015/16 was £1,500 per borough. As there is limited scope for additional savings or efficiencies to be identified from within the £51,000 this levy raises for the Committee, it is recommended that this charge be held at the current level of £1,500 per borough and TfL for 2016/17.

38. Estimated individual borough costs for 2016/17, covering the proposed charges highlighted in paragraphs 16-37 above, are detailed in Appendix C.1 and can be compared against the estimated charges for the current year at Appendix C.2, forecast at the budget setting stage for the current year 12 months ago. Indicative overall estimated savings of £989,000 in 2016/17 to boroughs and TfL arising from the proposed reduced charges, together with the projected reduction in

transaction volumes, are projected, assuming that the detailed proposed charges for 2016/17 are approved by the Committee.

Registration of Debt – Northampton County Court

39. Expenditure in respect of the registration of debt related to parking penalties is directly recouped from the registering borough, so the transactions have a neutral effect on the financial position of the Committee. The Court Service is not intending to increase the £7 unit fee for 2016/17; however volumes generated by users registered parking debt is not expected to exceed £3 million for the current year, so it is, therefore, proposed to reduce both the income and expenditure budgets for 2016/17 by £1 million from the current level of £4 million.

Contractual Commitments

40. **Staffing Costs** -The proposed staffing budget for TEC for 2016/17 is illustrated in Table 6 below:

Table 6– TEC Indicative Staffing Budget 2016/17	£000
2015/16 Revised Budget	2,431
Less POPLA salaries	(575)
Plus Chief Executive – DP/FOI work	68
1% pay award 2016/17	20
2.27% increase in Employers NICs	46
Pension increase – past service costs	61
Incremental salary drift	36
2016/17 Base Budget	2,087
Split between:	
Services – Parking and Traffic	78
Services – ETA	355
Services – RUCA	186
Services – Transport and Mobility	768
PAPA – Policy	350
PAPA – Communications	227
Chief Executive – Committee Servicing	55
Chief Executive – DP/FOI work	68
2016/17 Base Budget	2,087

41. The above figures reflect the reduction in salary costs due to the end of the POPLA contract and also an increase in salary costs to reflect the bespoke resource being used by the Committee to deal with the volume of requests for information under the Freedom of Information and Data Protection Acts.
42. In line with other London Councils funding streams, the vacancy level for 2016/17 remains at 2%. The salary figures include an estimated 1% cost of living increase on all salary costs and there will be an estimated further 2.27% increase in payroll costs due to additional employers NICs payable as a result of the state pension reforms being introduced on 1 April 2016. Increased costs will also be payable in respect of new arrangements to recover past service pension deficits. Finally, the above figures include an increase to cover the incremental salary drift. In addition to the salaries figure of £2.087 million shown in Table 6, the £18,987 budgetary

provision for member's allowances has been maintained at the 2015/16 level, as has the provision for maternity cover of £30,000.

43. **Accommodation Costs – Chancery Exchange** – The appeals hearing centre became operational at the new premises at Chancery Exchange, EC4 during July 2015. The budget for 2016/17 of £504,617 includes the full year cost of the leasehold agreement plus other premises running costs of £36,967. In addition, a budget for depreciation in respect of the refurbishment costs of Chancery Exchange of £101,461 is required, along with the continuation of a provision for potential dilapidation and reinstatement costs payable at the end of the Chancery Exchange lease of £14,126 per annum. These premises costs are fully recovered as part of the Parking Enforcement service charge (refer paragraphs 35-36).
44. **Accommodation Costs - Southwark Street** – These are included as part of central recharges cost and covers the 23.95 desks at Southwark Street that are used by staff who are directly chargeable to the TEC funding stream. Use of this accommodation will attract a per capita desk space charge of £5,700 for 2016/17, a £623 or 9.9% reduction on the charge of £6,323 for 2015/16, equating to £136,526 (excluding LEPT). In addition, ancillary premises costs such as cleaning, security and maintenance contracts, plus accumulated depreciation, again apportioned on a per capita basis, come to £63,404. The recharges in respect of the Southwark Street accommodation forms part of the administration charge for the direct services– for the freedom pass, taxicard, health emergency badge and the London lorry control scheme, as detailed in paragraphs 7-21 of this report.

Discretionary Expenditure

45. **Research Budget** – It is recommended that the budget of £40,000 for 2016/17 is maintained at the current year's level.
46. **General/Office Costs** - The budgetary provision of £626,000 for 2016/17 is broken down in Table 7 below:

Table 7 – TEC General/Office costs budget 2015/16	£000
2015/16 Revised Budget	763
Volume changes on appeals numbers – postage/stationery	(61)
Less POLPA general costs	(51)
Plus additional IT system development costs	100
Revised SLA/general office costs	(25)
2016/17 Base Budget	726
Split between:	
System Developments	150
General/Office Costs – postage, telephones, copiers, etc.	271
Appeals administration – postage/stationery	108
Appeals related legal costs	26
Staff Training/Recruitment Advertising	28
Staff Travel	4
External audit fees*	28
City of London finance, legal, HR and IT SLA*	111
2015/16 Base Budget	726

*forms part of central recharge costs

47. The reduction of £37,000 primarily relates to the volumes changes in appeals administration costs (£61,000), due to forecast reduced numbers, and the costs associated with the expired POPLA contract (£51,000). There has also been a reduction in the charge for central service provided through SLAs with the City of London (£31,000), offset by marginal increase in general office costs of £60,000. The budget also includes the proposal to increase the IT systems development budget by £100,000 for 2016/17 only to cover any additional costs arising from the development of the new IT system at Chancery Exchange.
48. No inflation has been allowed for 2016/17 on general running costs, except where there are contractual commitments. This factor has been applied to all London Councils budgets.

Central Recharges

49. Southwark Street accommodation costs (paragraph 44), the Parking Enforcement Charge (paragraph 35) and general office costs (paragraph 46) all contain significant element of central recharge costs, which are apportioned to all London Councils functions in accordance with a financial model that is subject to annual scrutiny by the external auditors. Following the end of the POPLA contract at the end of September, existing central costs had to be apportioned across all London Councils service. Some costs were TEC specific, such as the premises costs of the hearing centre, which now have to be split between the ETA and RUCA functions, and as detailed in paragraph 29, for 2016/17, this is apportioned in accordance with appeal number in respect of 2014/15. Of the total central costs apportioned to TEC in 2016/17 (excluding LEPT) of £627,000, a sum of £552,000 feeds into the recharges for the direct services administration charges based at Southwark Street and for the ETA and RUCA services at the appeals hearing centre. The residual £75,000 relates the TEC policy and administrative function based at Southwark Street. In addition, as detailed in paragraph 35, a further sum of £620,000 relates the premises costs at Chancery Exchange.
50. As detailed in paragraph 54 below, it is proposed that the Committee approve the transfer of a sum of £203,000 from uncommitted general reserves to reduce the potential increase in charges to boroughs for the direct services provided by TEC, which arises from increased costs due the reapportionment of existing central costs following the end of the POPLA contract.

Other Income

- 51. Miscellaneous Income** – It is estimated that income of £84,000 will accrue from two main sources in 2016/17. Firstly, £43,000 is expected to accrue for the administration of the Health Emergency badge (HEB) in the form of registration fees and charges for badges to Doctors Surgeries. This will enable this service to be provided at no cost to boroughs. Secondly, £41,000 is expected to accrue from London Transport for secretarial services provided by the Committee during the freedom pass negotiations.

Committee Reserves

52. Table 8 below updates the Committee on the revised projected level of reserves as at 31 March 2016, through to 31 March 2017, if all current known liabilities and commitments are considered and the proposals outline in this report are agreed:

Table 8– Analysis of Estimated Uncommitted Reserves as at 31 March 2016

	General Reserve	Specific Reserve	Total
	£000	£000	£000
Audited reserves at 31 March 2015	3,535	-	3,535
IT system developments brought forward from 2014/15	(64)	-	(64)
Residual 2015 Freedom Pass issue costs	(190)	-	(190)
Revenue costs of hearing centre relocation	(39)	-	(39)
Transfer to 2020 Freedom Pass issue reserve	(500)	500	-
Projected Budget Surplus 2015/16	616	-	616
Projected uncommitted reserves as at 31 March 2016	3,358	500	3,858
Proposed one-off repayment to boroughs and TfL in 2016/17	(340)	-	(340)
Proposed use in setting 2016/17 budget	(303)	-	(303)
Proposed further transfer to 2020 Freedom Pass issue reserve	(500)	500	-
Estimated uncommitted reserves as at 31 March 2017	2,215	1,000	3,215

53. Audited general reserves of £3.535 million as at 31 March 2015 fully reflects the return of the provision of £1.198 million made in the 2013/14 final accounts in respect of an objection made to the 2012/13 accounts by a London resident in respect of the POPLA service to the revenue account. Moving forward, the projected uncommitted reserves as at 31 March 2016 reflect the transfer of £500,000 from the revenue account in 2015/16 to the specific reserve towards the cost of the next bulk freedom pass renewal exercise in 2020, as agreed by this Committee in October. For comparative purposes, the final cost of the 2015 bulk freedom pass renewal exercise was £2.61 million.
54. The projected level of uncommitted general reserves as at 31 March 2017 assumes that the proposal made in this report to return of a sum of £340,000 to boroughs and TfL in 2016/17 is approved by this Committee. In addition, it is proposed that a further sum of £203,000 be transferred from general reserves to smooth the effect of the underlying increase in direct service charges following the end of the POPLA contract with the BPA and also a sum of £100,000 to enhance the IT systems development budget for 2016/17 only as a contingency for any further expenditure on developing the new parking managed services IT system at Chancery Exchange. The proposals also include the transfer of a further sum of £500,000 to the 2020 Freedom Pass issue reserve, as recommended by the Executive Sub-Committee on 24 November.
55. After taking into account the forecast surplus of £616,000 for the current year, uncommitted general reserves are forecast to be £2.215 as at 31 March 2017. This equates to 18.6% of proposed operating and trading expenditure of £11.923 million in 2016/17. This figure, therefore, significantly exceeds the Committee's formal policy on reserves, agreed in December 2005 that reserves should equate to between 2-3% of annual operating expenditure.

Formal policy on reserves

56. Following discussions at the July and September meetings of the TEC Executive Sub-Committee, members asked for a review of the Committee's formal policy on reserves. The current benchmark of between 2%-3% of annual operating expenditure was set 10 years ago based on fairly general CIPFA guidance that existed at the time. There is a general paucity of guidance on this particular financial yardstick; over a 15 year period, when asked, the London Councils external auditors have declined to provide a view on a suitable level, stating that it is a matter for the organisation's appropriate governance arrangements to consider and to set a benchmark that is both robust but reasonable.
57. In December 2012, CIPFA responded to an Audit Commission publication that focused on local authority reserves, entitled "Striking a Balance" and made a number of points, which included:
- Reserves are an important component of an organisations' financial planning but they are not a silver bullet solution to financial problems;
 - Judgements about reserves - to what extent they should be used or set aside to meet either specific or unforeseen future liabilities - can only be made locally within individual organisations;
 - Local decisions should be taken by councillors having regard to clear and full information and advice provided by Chief Finance Officers;
 - Recent increases in aggregate levels of reserves reflect organisations' good performance to date in coping with austerity. They have universally reduced budgets in real terms, and in many cases they have also managed their affairs to deliver underspending which bolsters reserves;
 - Uncertainty and risk is increasing. The dual challenge of further funding reductions and significant financial system reforms represents a cocktail of significantly greater uncertainty and risk than would normally be the case.
58. In terms of the activities of TEC, a significant proportion, as noted at various points in this report, can be classed a trading activities, the volumes of which are determined by individual boroughs and TfL. Historical evidence has shown that volumes can be volatile, varying from year to year, often a symptom of changes to local enforcement practices, often attributable to the outcomes of judicial rulings. Such volatility has a significant effect on the Committee's reserves and it could be argued, therefore, that the current 2%-3% benchmark did not fully reflect this factor.
59. At this point 12 months ago, with the Committee being required to make a £1.2 million provision against income from the BPA and facing significant expenditure on both the 2015 freedom pass reissue and the refurbishments works at Chancery Exchange, reserves were projected to fall to £301,000 or 2.56% of trading and operating expenditure of £11.735 million. As indicated in paragraph 55, uncommitted general reserves of £2.715 million are projected as at 31 March 2017, equating to 22.8% of proposed operating and trading expenditure of £11.923 million in 2016/17. The significant improvement is due to the return of the £1.2 million POPLA provision and the careful management of both the pass reissue and hearing centre refurbishment projects, which allowed both to be delivered within budget, whilst at the same time minimising the impact on the revenue account. However, the fact that significant levels of reserve were held

enabled the Committee to set a balanced budget for the current year and to ride out a potentially financially difficult period.

60. In terms of savings and return of resources to boroughs, since 2010/11, this has been managed within the approach adopted in respect of the wider London Councils budget, managed by the Leaders' Committee. If the proposals outlined in this report are approved, the benefits to boroughs in respect of the Committee's functions over the six year period since 2010/11 are as follows:
- A reduction in borough and TfL subscriptions and charges of £4.5 million;
 - The return of funds to boroughs and TfL of £510,000;
 - The successful delivery of the 2015 freedom pass reissue project at a cost of £2.6 million without recourse to the boroughs for additional funding; and
 - The successful delivery of the refurbishment of the Chancery Exchange site and the move from Angel Square appeals hearing centre at a cost of £981,000, again without recourse to boroughs for additional funding.
61. After considering the local condition under which the Committee operates and mindful of the general points made by CIPFA in respect of the continuing levels of risk and uncertainty, the Director of Corporate Resources is minded to recommend that the Committee adopt a revised uncommitted general reserves benchmark of between 10%-15% of operating and trading expenditure. This equates to between £1.192 million - £1.788 million, based on projected expenditure of £11.923 million in 2016/17. The Director of Corporate Resources is content that this will cover any immediate volatility in respect of future transactions volumes generated by boroughs and TfL for traded services provided by the Committee.
62. Uncommitted general reserves are projected to be £2.715 million as at 31 March 2017, which is £927,000 in excess of the upper range of the proposed revised reserves benchmark. There is a recommendation in this report to return a sum of £10,000 to each borough and to TfL, amounting to £340,000, from general reserves. In addition, a further sum of £303,000 is proposed for transfer to revenue to fund a proportion of the direct services administration fees and to fund potential IT system developments at Chancery Exchange. The parameters of the outline budget strategy for London Councils for 2016/17 were developed after consulting the Chair of London Councils. On that basis, the Director of Corporate Resources recommends that the Committee adopts the budget proposals as outlined in this report. It is further proposed that the Committee approve the revised formal policy on reserves of between 10%-15% of operating and trading expenditure, with immediate effect.
63. In relation to the indicative £927,000 excess uncommitted reserves figure above the newly proposed benchmark, the Committee may wish to consider the transfer of a further sum to the specific reserve to fund the 2020 freedom pass reissue. For illustrative purposes, a further £500,000 transfer would reduce the projected excess reserves figure to £427,000. The Director of Corporate Resources considers that this residual sum could act as a contingency to cover any additional unforeseen expenditure on, for instance, the new IT system at Chancery Exchange, or to cover any wider future change management process.
64. The TEC Executive Sub-Committee considered the proposed changes to the Committee's formal policy on reserves on 24 November and agreed to recommend that this Committee approve the proposed changes. The Executive

Sub-Committee also agreed to recommend that this Committee approve the transfer of a further sum of £500,000 to the specific reserve to cover the cost of the 2020 Freedom Pass reissue, thereby reducing the projected excess reserves figure above the higher range 15% threshold to £427,000. This Committee is, therefore, asked to formally approve these proposals.

Summary

65. This report details the outline revenue budget proposals and the proposed indicative borough subscription and charges for 2016/17. The Executive Sub-Committee considered these proposals at its meeting on 24 November. The Executive Sub-Committee agreed to recommend that the full Committee approves these proposals, which are now presented for final approval. The proposed level of expenditure for 2016/17 amount to £378.786 million. A sum of £366.523 million relates to direct expenditure on the transport operators providing the Freedom Pass and the Taxicard schemes. After excluding the £340,000 in respect of the proposed one-off payment to boroughs in 2016/17, this leaves £11.923 million relating to expenditure on parking and traffic related traded service and other operating expenditure. This compares to a comparable sum of £12.128 million for the current year, a reduction of £205,000, or 1.7%. The savings and efficiencies highlighted in this report has allowed for significant reductions to be offered to boroughs and TfL through the proposed charges for 2016/17 in respect of the range of functions provided by the Committee.

Recommendations

66. The Committee is asked to approve:

- The changes in individual levies and charges for 2016/17 as follows:
 - The Parking Core Administration Charge of £1,500 per borough and for TfL (2015/16 - £1,500; paragraph 37);
 - The total Parking Enforcement Service Charge of £0.4681 which will be distributed to boroughs and TfL in accordance with PCNs issued in 2014/15 (2015/16 - £0.4333 per PCN; paragraphs 35-36);
 - No charge to boroughs in respect of the Freedom Pass Administration Charge, which is covered by replacement Freedom Pass income (2015/16 - £8,674; paragraph 16);
 - The Taxicard Administration Charge to boroughs of £338,182 in total (2015/16 - £338,182; paragraphs 17-19).
 - No charge to boroughs in respect of the Lorry Control Administration Charge, which is fully covered by estimated PCN income (2015/16 – nil charge; paragraphs 20-21);
 - The Parking and Traffic Appeals Charge of £33.32 per appeal or £29.90 per appeal where electronic evidence is provided by the enforcing authority (2015/16 - £33.40/£29.97 per appeal). In addition, a new differential charge is proposed for hearing Statutory Declarations of £28.17 for hard copy submissions and £27.49 for electronic submissions (2015/16 - £33.40/£29.97 per SD) (paragraph 28);
 - Congestion Charging Appeals – to be recovered on a full cost recovery basis, subject to the continuing agreement of the GLA under the contract arrangements that run until December 2016 (paragraph 29);

- The TRACE (Electronic) Charge of £7.31 per transaction (2015/16 - £8.60; paragraphs 33-34);
 - The TRACE (Fax) Charge of £7.48 per transaction (2015/16 - £8.80; paragraphs 33-34); and
 - The TEC Charge of £0.17 per transaction (2015/16 - £0.20; paragraphs 33-34);
- The provisional gross revenue expenditure of £378.786 million for 2016/17, as detailed in Appendix A;
 - On the basis of the agreement of the above proposed charges, the provisional gross revenue income budget of £378.143 million for 2016/17, with a recommended transfer of £643,000 from uncommitted Committee reserves to produce a balanced budget, as shown in Appendix B;
 - From proposed reserves of £643,000, a sum of £10,000 be repatriated to each borough (and TfL) from TEC uncommitted reserves, amounting to £340,000 in total, in the form of a one-off payment, as per paragraph 54; and
 - The proposed changes to the Committee's formal policy on reserves, and the transfer of an additional sum of £500,000 from the Committee's general reserves to the specific reserve for the 2020 Freedom Pass reissue as detailed in paragraphs 56-64.

67. The Committee is also asked to note the current position on reserves, as set out in paragraphs 52-55 and Table 9 of this report and the estimated total charges to individual boroughs for 2016/17, as set out in Appendix C.1.

Financial Implications for London Councils

None, other than those detailed in the report

Legal Implications for London Councils

None

Equalities Implications for London Councils

None

Appendices

Appendix A – Proposed revenue expenditure budget 2016/17;

Appendix B – Proposed revenue income budget 2016/17;

Appendix C.1 – Indicative charges to boroughs 2016/17;

Appendix C.2 – Indicative charges to boroughs 2015/16; and

Appendix D – Parking Enforcement statistics 2014/15

Background Papers

TEC Budget Working Papers 2015/16 and 2016/17;

TEC Final Accounts Working Papers 2014/15;

TEC Revenue Budget Forecast Working Papers 2015/16; and

London Councils Consolidated Budget Working Papers 2015/16 and 2016/17.