

## **Response from the Budget and Performance Committee to the Mayor's Draft Capital Spending Plan for 2009/10**

The Budget and Performance Committee met finance officers from the GLA and the functional bodies on 19 January 2009. The Committee does not propose amendments to the draft capital plan. We do, however, have questions over several parts of the plan where work is ongoing and information is currently unavailable. We set out in our response when and how this Committee will monitor these issues and what information we expect the Mayor and functional bodies to publish to enable full scrutiny of the developing plans. Our questions come under two headings: areas of uncertainty and risk; and measures to stimulate London's economy.

### **Areas of uncertainty**

There are several points of uncertainty or change in the GLA group's capital spending plans, particularly relating to risks from the recession or to developing responses to it. We note areas of uncertainty or risk relating to the London 2012 Olympic and Paralympic Games, to works by functional bodies on their property estates, to Crossrail funding and to the funding of Transport for London's capital programme in general.

### **Olympics**

There are a number of risks and uncertainties relating to the London 2012 Games.

#### *Olympic Funding Strategy*

The Draft Capital Spending Plan includes figures, taken from the LDA's Olympic Funding Strategy, for LDA expenditure and funding relating to the London 2012 Olympic and Paralympic Games. The Olympic Funding Strategy relies on estimates of the capital receipts to be realised by selling parts of the Olympic site, and therefore on expectations for the buildings and infrastructure to be left on the site after the Games.

However, these expectations are subject to the Olympic Legacy Master Plan, which is still under development and not due to be completed until the end of March 2009. Decisions within the plan about the development on the Olympic site are subject to a number of considerations, including the supply of public and private sector funding. The lack of private sector funding in the current recession is causing the Olympic Delivery Agency to make changes to the original building and site specifications.<sup>1</sup>

Also, from 2012 onwards, the projected capital receipts are still based on property market forecasts and land valuations from a report by Knight Frank produced in 2007 – these were not revised when the Olympic Funding Strategy was updated in September 2008. Since 2007 the UK has experienced falls in the property market, which may affect the value of the Olympic site and therefore future capital receipts for the LDA. The LDA told us that there would be an updated Olympic funding strategy included within the Legacy Master Plan<sup>2</sup>.

---

<sup>1</sup> House of Commons Culture, Media and Sport Committee meeting, 9 December 2008

<sup>2</sup> Andrew Travers speaking at the Budget and Performance Committee Meeting, 19 January 2009

#### *MPA security budget*

The MPA and MPS are facing uncertainty and delay over the agreement by the Home Office of a final, costed, Olympic security plan. This is now expected, under the title of the Integrated Costed Security Strategy, to be produced in February – nearly a year after it was originally due. The MPA capital spending plan is constructed around the assumption that all Olympic work will be fully-funded by grants, so the risk is not to the financial side of the plan. However, each delay puts some pressure on the timescales for procuring and delivering the capital work to equip the MPS for Olympic security operations. We share the MPA's concern about this and support efforts to ensure that the strategy is produced without further delay.

#### *FireControl project*

LFEPA is to move its control room operations to a new centre provided under the national FireControl project. This project has been experiencing delays and is now due to go live in London in February 2011. LFEPA has told us that summer 2011 is the latest date that the control room could begin operations and be ready in time for the 2012 Olympic and Paralympic Games. Therefore LFEPA is investigating options for alternative arrangements should the February 2011 date slip much further. This committee will also carefully monitor the management of this risk.

**Given the ongoing uncertainty about Olympic funding affecting the LDA, MPA and LFEPA, we ask that the Mayor report to this Committee by May 2009 on progress on the issues we have highlighted.**

#### **Service impact of changes to estate strategy/property spending**

Due to current conditions in the property market, the MPA is expecting capital receipts of about £20 million a year, compared with expectations of £75-100 million a year in previous plans. There are also some downward revisions of expected capital grants. Therefore, the MPA is reducing its capital expenditure plans (by £207 million, nearly half, in 2009/10 compared to the previous, not fully-funded, plan).

The MPA was unable to tell us what the service impact of these reductions would be, since the programme of property works is under review by a Member-Led Panel. We were assured that the review would seek to minimise the service impact of the capital expenditure reductions, but it is clear that there will be some service impact. For example, the roll-out of Safer Neighbourhoods Team bases will take place over three years instead of two and so these officers will in many cases be based further from their wards for longer.

The panel is also considering whether borrowing may increase to provide more capital funding, as borrowing was increased during 2008/09 to finance the purchase of New Scotland Yard; therefore the overall size and funding mix of the MPA capital programme may change from that presented in the consultation document.

LFEPA does not expect to generate any capital receipts in 2008/09, though it was planning for £21 million at this stage last year. Due to this loss of income and other

factors, several of its capital projects for this year are delayed. Its projected capital expenditure for 2008/09 in the Draft Capital Spending Plan was down to £25.1 million, and we heard at our meeting on 19 January that this had fallen since November to £22.5 million (compared to a plan of £39.6 million at this stage last year). So, although LFEPA's planned capital expenditure for 2009/10 and 2010/11 is rising compared to previous plans, much of this expenditure will support work that was due to have been completed earlier. We have requested from LFEPA written details of the revisions to the capital spending plan since its drafting.

Due to conservative budgeting for the capital receipts due from the sale of the former headquarters at 8 Albert Embankment, LFEPA's capital funding plans for the next two years are not so far affected by the recession. We will monitor carefully prospects for 2011/12 and beyond.

TfL told us that it will seek to move staff accommodation to cheaper locations where possible, and to reduce the size of accommodation where headcount reductions allow. In 2009/10 the TfL capital programme includes £152m (7% of the programme) from capital receipts. This assumption is vulnerable to the downturn in the property market, particularly in the large portfolios in which it has been TfL's practice to market property.

**We recognise that the ongoing uncertainty relating to estate and property issues across the functional bodies is unavoidable given the economic situation. We therefore propose to request updates from the functional bodies over the coming months to enable full and open scrutiny of the decisions being made and their impact on services.**

### **Crossrail**

The GLA is planning to collect revenue from the supplementary business rate (from 2010, subject to legislation), community infrastructure levy and section 106 agreements to fund borrowing by the GLA to help fund Crossrail. If revenue from these sources is lower than planned, for example due to the recession, the amount that the GLA can borrow in any year will be reduced, reducing or delaying the funding available for Crossrail from this source. This presents a medium-term financial risk for TfL and is therefore an area to be monitored as the funding focus for the capital programme shifts from borrowing to reliance on revenue support, as discussed in the next section.

### **The balance of funding sources for the TfL capital programme**

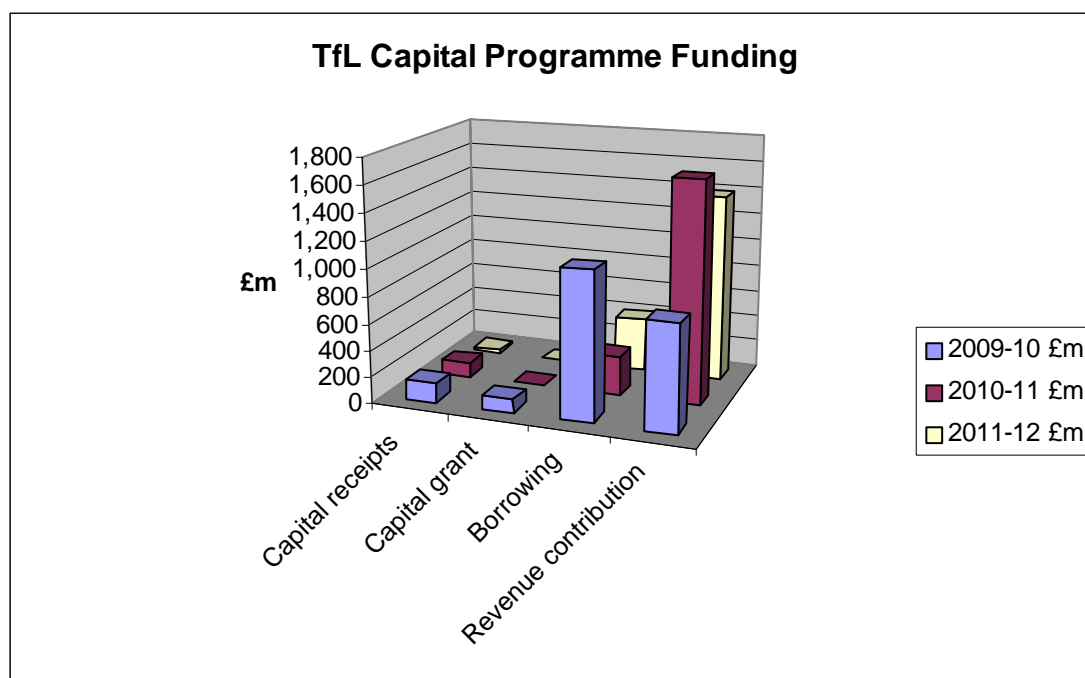
The present consultation paper is based on a business plan budget drawn up in the summer of 2008, prior to the effects of the economic downturn becoming apparent. Historically, ridership on London transport and in particular London Underground is sensitive to the state of London's economy.

TfL told us that the final budget to be taken to the TfL Board in March will include a reassessment of projected revenue based on the reduced growth in ridership that TfL is experiencing and is likely to continue to experience through the 2009/10 year. The capital investment programme is not to be reduced – the budget is to remain balanced

and shortfalls in revenue would be met by reducing operating expenditure and service provision if necessary. However, no details of possible reductions are yet available.

If TfL is to continue to accommodate the effect of under-forecast ridership within the operational budget, it will need to manage the effect on services carefully.

From 2010/11, the funding of TfL's capital programme also becomes reliant more on revenue than on borrowing, as shown in the graph below.



The current budget includes funding from borrowing at the maximum allowed within the 10 year funding settlement agreed with the Department for Transport in 2007. Revenue funding includes TfL's fares income. Therefore, if fares revenue is below forecast for an extended period, TfL will face challenges funding both the longer term capital improvements required to support the London economy and growth and an acceptable level of operating services.

In addition to revenue impacts the recession will affect capital receipts. The draft capital spending programme includes £152m in 2009/10 funding from capital receipts. This estimate was made prior to the economic downturn and the revised budget may additionally include downward revisions to this area.

**We recommend that, when it sets out its revised projections for ridership, TfL set out the risks to its ongoing capital plans and how it plans to manage these risks. We expect TfL to report regularly on the management of risks associated with reduced ridership in the monitoring information it provides to the Mayor and this Committee.**

## **Stimulating London's economy**

We heard of a number of ways that capital spending may be used to help support and stimulate London's economy.

### *MPA capital works*

The MPA told us it had written to Tony McNulty MP, the Minister for London, about the potential to bring forward up to £40-50 million of government funding for capital works in the context of the desire to support the economy. We also heard that the MPA Member-Led Panel was looking at potential further borrowing.

### *LDA capital work*

The Mayor in his Economic Recovery Action Plan announced plans to lobby government to secure or bring forward funding for large investment programmes, including capital investment in colleges and schools and land remediation work in the Thames Gateway.<sup>3</sup>

As London's agency in charge of economic development, it is important that the LDA uses its resources and influence to contribute to the Mayor's plans and bring forward investment programmes where possible. The LDA explained that, due to significant commitments such as the Olympics, it has limited funds available to use on bringing forward capital investment but will help to advance schemes where possible. We welcome news that the LDA is working closely with the Homes and Communities Agency and other agencies on possible ways to bring forward housing projects that are currently stalled or blocked.<sup>4</sup>

### *TfL capital work*

TfL acknowledges that the Government's intention to bring forward capital programmes as part of its economic stimulus package may assist TfL in delivery of benefits to Londoners. We note that lead times make it difficult to bring forward large projects within the overall programme. TfL is looking at areas of the station upgrade programme that may be brought forward, provided funding is available and the business case is made. These works may include those previously under the Metronet PPP that were deferred. The Committee welcomes this.

TfL also told us that the Mayor is in discussions with the Secretary of State regarding possible funding for Phase 2 of the East London Line extension. If work on this were to follow on directly and immediately from Phase 1, there could be economies in project management costs.

**We welcome these proposals to help stimulate the London economy. We are keen to see concrete proposals and ultimately positive results and therefore request that the MPA, LDA and TfL report back to the Committee on progress by May 2009.**

---

<sup>3</sup> The Mayor's Economic Action Recovery Plan, December 2008, pp 38-39.

<sup>4</sup> Andrew Travers speaking at the Budget and Performance Committee Meeting, 19 January 2009