

Pre-Budget Report 2009

Response to the recommendations of the London Assembly's Budget and Performance Committee as set out in the Committee's *Pre-Budget Report 2009*.

Recommendation 1

That, in his response to this Report, the Mayor sets out his analysis of the key risks to the future funding of the functional bodies, setting out as far as possible at what level of cuts front-line services would be put at risk.

Response

The grant levels set by the most recent spending review end with the 2010/11 financial year and there has been no formal indication yet from Whitehall of the likely grant levels for 2011/12 and 2012/13. However, I asked the MPA, LFEPA and the GLA to explore two options for 2011/12 and 2012/13 – based on a standstill grant and a year-on-year reduction of 1.5% but still prioritising resources for frontline services.

I have not requested any further analysis of any other hypothetical grant level but am focussing on continuing to make the case for London, whether that is, for example, through my support for Crossrail, better Overground services in South London or through measures being put in place by the GLA Group to aid London's economic recovery. I am also lobbying the Government in the run-up to the Chancellor's pre-budget report to ensure that London gets the best deal possible. Those same messages will also be relayed to the national government after next year's general election.

Recommendation 2

The Committee recommends that it should be the key priority of the Mayor in the next 12 months to ensure that, whichever party is in government from June 2010, London's services are protected. By highlighting the significant savings achieved and planned by the functional bodies in recent years the Mayor should highlight the risks to services of further cuts in the next Comprehensive Spending Review. The Mayor should work to build a broad public consensus, including London boroughs and the Assembly, to argue for the protection of London's services by ensuring a fair return for London's contribution to the exchequer. The Mayor should report back to the Committee on the steps he is taking to make the case for London by February 2010.

Response

Since my election I have regarded making the case for London as a key priority of my Mayoralty. That is why last week I launched my 'Investing for Recovery – A New Deal for London' report which not only seeks to protect investment in London's infrastructure but also demonstrates that my team and I are actively engaged with London Councils and a range of other key partners in this vitally important activity. The critical period of lobbying will clearly be in the immediate aftermath of a national government being elected in 2010. At that stage decisions about the funding settlement for 2011/12 and beyond will begin to be made. It would therefore seem that February will be a little too early for me to be able to report back to you in any meaningful way on that.

Recommendation 3

The Mayor must ensure that the functional bodies demonstrate in their business plans how their expenditure relates to his policy themes and priorities as set out in the strategic plan. Expenditure should be linked to these priorities, and related outputs and targets, so that the expected outcomes from this expenditure are clear.

Response

I have asked the functional bodies to follow my budget guidance in the budget submissions they make to the GLA. The budget guidance does follow the themes contained in the GLA's strategic plan and given that the functional bodies' business plans underpin their budget submissions, there should be a consistency with the strategic plan.

Recommendation 4

The Mayor should ask the MPA to publish by the start of the 2010/11 financial year details of its funding sources including those from outside bodies, such as London boroughs, and how these contribute to policing levels.

Response

I shall ask the MPA to publish details of its principal funding sources before April 2010 together with a high-level assessment of the risks to operational performance of losing that income.

Recommendation 5

The Committee recommends that the MPA produces a measure of frontline service capacity by April 2010 so that the service impact of budget savings can be understood.

MPA Response:

The Authority and Service continue to develop our performance management framework and our information systems to provide a better analysis of how officers are deployed.

Recommendation 6

We recommend that the Mayor reports MPA progress on bringing forward savings projects in his response to this report. The response should include the section of the MPA's draft budget submission on outstanding issues and uncertainties. This should include a risk assessment of savings projects not being successfully advanced and savings having to be made by reducing front line service capacity in 2011/12 and 2012/13.

Response

Details of MPA savings will be included in my budget proposals being released on 10 December.

Recommendation 7

The MPA should prioritise ensuring that capital budgets are fully used during the year and demonstrate how this is being done in its quarterly monitoring reports. Reports should clearly differentiate between capital underspend that has occurred due to a decrease in available funding, and deferrals that have occurred due to operational delays.

MPA Response:

The MPA has a clearly defined policy for the prioritisation of capital projects. This has been stated in the Mayor's Capital Spending Plan. To ensure that capital budgets are fully utilised a level of over programming is undertaken each financial year. This ensures that should an underspend occur within a key project another scheme is available to absorb the released funds.

It is extremely rare that underspends occur in the capital programme due to a decrease in available funds. As projects will have commenced, and will need to be fully funded, every effort will be found to find an alternative funding source. Regrettably, delays in projects will inevitably occur. Many arise from factors outside of the control of the Authority. Where 'slippage' in a scheme does occur it is important that funds are earmarked to be carried forward through reserves to allow the project to continue to completion in future years.

Recommendation 8

The Committee recommends that the MPA continues to explore the possibility of increasing borrowing to bring forward capital programmes and makes a decision before the end of the 2010/11 budget setting process. Particular attention should be placed on the possibility of bringing forward capital programmes that will provide revenue savings over the next three years.

MPA Response:

In June 2009 the Authority agreed to increase borrowing by £60m over three years (2009-12) to support increased capital spending. In considering reprioritisation of the projects the Service has focused on the delivery of the approved capital programme which included estimated spend in 2009/10 of £16.7m in excess of the approved capital budget. Based on Period 6 forecasts additional borrowing was no longer considered necessary and the additional £60m was built into the 2010/11 and 2011/12 budgets to support the Authority's capital programme.

Two key factors have to be considered when exploring the possibility of increased borrowing: (a) does the Service have the capacity to deliver an increased number of capital projects; and (b) can the additional capital financing costs arising from increased borrowing be accommodated within the revenue budget. At the present time it is believed that there is little room for manoeuvre with regard to increasing project management capacity within the Service. While the capital financing costs associated with the increased borrowing of £60m have been allowed for in the draft 2010-13 budgets, further costs could only be accommodated if savings elsewhere within the revenue budget were found.

Recommendation 9

In response to this report, the Committee asks the MPA to provide details of the rationale for increasing its general reserve. It should explain what consideration has been given to using the general reserve to advance capital programmes or to provide a contingency against possible reduced capital receipts.

MPA Response:

Revenue funds are being used for capital investment financing purposes. During 2009/10 and 2010/11 £13m and £9m respectively are being made available from an earmarked revenue reserve to boost capital expenditure. These sums have been made available due to an overall underspend on the revenue budget during 2008/09. They would have been placed in the general reserve if not directed towards the capital programme. Use of the general revenue reserve is reviewed on a regular basis as part of our budget and business planning process. The Authority's policy, however, is to maintain the revenue general reserve of at least 2% of net revenue expenditure. At the start of 2009/10 the figure stood at 1.8% although when combined with the Emergency Contingencies Fund this equates to approximately 2.7%.

Realisable estimates for the generation of capital receipts over the period 2010/11 to 2016/17 have been factored into the capital programme. These sums take account of the downturn in the property market and the number of premises that are expected to be disposed of over the planning period. The disposal programme for the Authority is presently being reviewed. If reduced capital receipts should arise then all opportunities for bridging the funding gap would be explored. However, we are mindful of the need to build resilience into the balance sheet to cope with unforeseen events and growth in reserves should also be seen in this context.

Recommendation 10

That the Mayor, in his response to this report, clearly differentiates between the front line services LFEPA is maintaining and services undertaken by operational fire and rescue staff that are not considered front line services, and in particular in which category fire prevention falls.

Response

I set out in my budget guidance that my priority for LFEPA is for it to “maintain front-line services by continuing to modernise service delivery arrangements and maximising benefits from a risk-based approach to fire safety issues”.

LFEPA's draft London Safety Plan for the next three years confirms its commitment to maintain front line services to the public. It is designed to carry forward LFEPA's continuing commitment to modernisation; to achieve a professionally focused and supported fire and rescue service in London; and to deliver value for money in everything that it does. It includes a range of efficiencies which will be reflected in the budget. These will enhance front line services delivered to the public.

The main specific proposals of the Plan can be summarised as:

a. Subject to further detailed consideration the establishment of four Bulk Extinguishing Materials Centres at Harrow, Kingston, Beckenham and Barking fire stations. Each would involve the co-location of pump ladders, bulk foam units and hose layer lorries and in the longer term LFEPA would also be looking to consider the addition of high

volume pumps and bulk water carriers. These centres would also enable the introduction of alternate crewing across the Centres. The creation of these centres would give better placement of assets for strategic cover and create better skills groups;

b. Subject to further detailed consideration, the establishment of four Rescue Centres at Edmonton, Heston, Croydon and East Ham fire stations. Each would involve the co-location of a range of rescue equipment including pump ladders, pumps, fire rescue units and urban search and rescue appliances (USAR). These centres would allow much better management and maintenance of the highly specialised skills required. Like the Bulk Extinguishing Materials Centres, there may be opportunities for alternate crewing at these centres and LFEPA will examine this further;

c. There are currently 10 incident response units (IRU). The IRUs are a very important resource in the case of a major chemical, biological, radiological or nuclear incident. Fortunately they are needed very rarely. At the moment, four IRUs are permanently crewed, with six crewed alternately. The Plan proposes that of the permanently crewed IRUs, one will be crewed alternately, with another to be used in training on a permanent recall basis, leaving two permanently crewed.

d. Building on the services provided by the London Local Authority Co-ordination Centre (LLACC) through the expansion of the groups with which the LLACC can work and the support which the LLACC can give to the local authority Gold arrangements. LFEPA will also be arguing for the Regulations to be amended to include specific reference to the role of the LLACC and LFEPA's responsibilities to put in place and maintain such arrangements;

e. The establishment of new headline targets for the period 2010/11 to 2012/13 about reducing fires which cause harm or damage property; reducing arson; and reducing call outs to nonemergency incidents; and

f. Continuing to ensure that building owners and occupiers and those that manage nondomestic buildings comply with fire safety laws by: influencing designers and planners to "design out" fire and build-in appropriate warning systems; inspecting buildings which pose the greatest risk to safety from fire and by providing guidance and advice on compliance with the legislation.

In addition, the budget for 2010/11 contains budgets for the following new initiatives:

- Running costs of a new fire station in North East London (Harold Hill);
- More domestic smoke alarms to fit in people's homes; and
- Resources for a radical review of how firefighters and other staff are trained.

Fire prevention remains an absolute priority and is counted as part of LFEPA's front line services. It is reflected in my budget guidance to LFEPA to "continue to develop community safety activity and identify areas for partnership activity to target high risk groups". This is reflected in the draft London Safety Plan in which the Commissioner states that "Prevention and protection are the key to making London safer. We must focus our efforts on protecting people, property and the environment from harm and, importantly, preventing fires from happening in the first place. Our plan enables us to target those people most at risk as well as ensuring that the built environment protects people from fire."

Recommendation 11

The Committee recommends that the Mayor should, in response to this report, provide an updated statement on the sale of 8 Embankment Place and the level of risk to LFEPA of that sale not being completed or for a lower price than previously assumed.

Response

The developer has prepared a scheme which is ready to be submitted for planning permission. LFEPA's Finance, Procurement and Property Committee in January will give further consideration to the scheme. The Authority's capital programme has been reviewed and will be manageable for 2010/11 if the scheme should be delayed or not go ahead (as will be set out in the draft Capital Spending Plan which will be considered by the Assembly's Budget and Performance Committee in January). Any changes for future years will be reviewed in the light of the outcome of current discussions.

Recommendation 12

In his response to this Report, the Mayor should provide a detailed description of the efficiency savings identified by TfL to date and progress towards identifying the £5 billion target he recently announced.

Response

Details of TfL's planned efficiency savings will be included in my budget proposals being released on 10 December.

Recommendation 13

In response to this report the LDA should provide an explanation of the work that has been carried out to ensure that other budget shortfalls do not exist and the budget is based on accurate and up-to-date information. The response should include assurance from senior management that they are satisfied with controls and systems in place at the LDA and that they believe the budgets are based upon a true and fair representation of the LDA's financial position.

LDA Response

The LDA has undertaken a detailed project scrutiny exercise that has analysed projects to determine the adequacy of their budget. This has been based on accurate and up to date information signed off by Group Directors. There have been a number of reviews of controls and systems in place at the LDA, and the actions arising from them will largely be completed by the end of this financial year. These improvements will reduce errors, improve controls and seek to highlight errors and instances of non-compliance.

Recommendation 14

The Committee is unconvinced that current LDA targets are a useful tool for assessing the Agency's effectiveness. Targets should be benchmarked against previous performance and other regional development agencies. In response to this report, the LDA should provide an updated list of programme targets for 2009-2012 that takes into account the reduction in programme budgets due to the Olympic budget shortfall.

LDA Response

Current LDA targets are benchmarked against previous performance and those of the other RDAs. The targets for 2009/10 were not changed in response to the adjustment of programme budgets following the Olympic budget shortfall because the Agency's overall budget remained the same. At month 6, the Agency is forecasting to exceed all its 2009/10 targets except for investment levered, employability support, and business/knowledge base collaborations.

The Agency accepts that the metrics that are currently used can be improved. Their new Investment Strategy contains a new set of performance indicators that will provide a more robust assessment of the Agency's impact. The LDA would welcome comments on these indicators from the Assembly and will publish challenging targets alongside the final draft of the Investment Strategy.

Recommendation 15

The outcome of negotiations over the transfer of Olympic Legacy responsibility will have a significant effect on the LDA's future resources and budgets going forward. The consultation draft budget due to be published for consultation with the Assembly in December should include a section explaining the impact that the transfer of Olympic Legacy responsibility to the Olympic Park Legacy Company will have or is likely to have on the LDA budgets going forward. Explanations should include details of all the potential risks and rewards relating to the Olympics that the LDA will still face after the transfer.

Response

The LDA section of my budget proposals will set out the assumptions made in relation to the transfer of Olympic legacy resources.

Recommendation 16

The investment strategy should include a detailed explanation of how the LDA investment methodology works, allowing all stakeholders to gain a clear understanding of how and why the LDA has chosen to prioritise its resources as it has. It should provide a clear understanding of how the LDA is choosing to prioritise and allocate its funding which can then be seen in action in the 2010/11 draft budget.

LDA Response

The LDA needs to be sure it is making the right decisions and will build flexible tools that allow us to respond to a changing environment and deliver value for Londoners. The LDA's methodology to guide investment decisions already give us some measure of whether we are making the right choices and concentrate resources where they are most needed and have the greatest impact.

The agency has developed an economic modelling method that is, based on cost benefit analysis. It estimates the optimal balance of funding using evidence on the effectiveness of public spending across all of the Agency's investment areas alongside information on total public spending across London for each policy area.

The LDA has put all our projects under intense scrutiny over the last six months. The focus has been on reducing unit costs and increasing overall value for money. Staff have developed a set of benchmark unit costs for the outcomes the Agency wants to achieve and a set of clear corporate targets for reducing overall average unit costs.