

Pre-Budget Report 2011

October 2011



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Role of the Budget and Performance Committee

The Budget and Performance Committee scrutinises the Mayor's annual budget proposals and holds the Mayor and his staff to account for financial decisions and performance at the GLA. The Committee also looks at spending and performance across the GLA group, undertaking investigations into issues such as the cost of policing, spending on the Olympics and public transport fares.

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Chairman's foreword

This is the final budget-making of the Mayor's first term of office and will either become the first budget of his second term or the first budget inherited by his successor. So the political temperature will be higher than usual. Inevitably, judgements will be made about it, both as the culmination of his term and as a pre-election statement. This is an inevitable consequence of the electoral cycle.



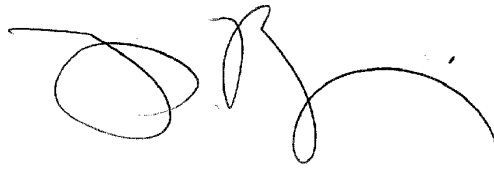
Aside from such shorter-term considerations, it is of course reasonable to seek to identify an overall shape and direction of travel in the suite of four budgets over a Mayoral term. There are clear themes, and priorities, that the Mayor has identified. It is reasonable for us to judge performance against these, in a measured and evidence-based manner. That is one of the key roles of our committee.

But in addition it is of course a budget set at a difficult time for the UK, and London, economy. Unemployment is again a growing problem in our city, and inflation has consistently run ahead of recent trends – life is tough for many Londoners. And it is set in the context of the Government's restraints on public spending, which will see considerable real-terms cuts in City Hall budgets over the next few years.

And so, from whatever perspective, it is important to examine what priorities the Mayor will pursue, both in terms of the services City Hall provides but also in terms of the use of the levers he has to protect and strengthen London's economy and its citizens and communities, at a time of difficulty. For all of these reasons this is probably the most difficult budget of the Mayoral term.

The role of the Pre-budget report is to help to set the scene for the ensuing budget making. We aim to be searching and evidence based in our work, but we deliberately aim to avoid including party-positions in the report – these properly belong in the debate led by politicians and party groups as the budget-making unfolds. We have posed a number of questions, both in a small number of formal recommendations but also in a series of conclusions within the body of the report, which we hope will constructively help with the

presentation of the budget in order that Londoners can understand the key issues, and make a better informed judgement on the decisions made. It should also help to raise the probability that the budget debate in the coming months, while doubtless vigorous and based on strongly held views as to priorities, and achievements, will be based more substantially on solid foundations.

A handwritten signature in black ink, consisting of a large, stylized 'J' followed by a series of loops and a long horizontal stroke.

John Biggs AM
Chairman of the Budget and Performance Committee

1 Introduction

- 1.1 The budget for the coming financial year will be the Mayor's last before the mayoral election on 3 May 2012. It will be his fourth budget since taking office and will set out the funding plans for the first year of the next Mayoral term. It will be the second since the Government's Comprehensive Spending Review (CSR) in October 2010, when a four-year programme to reduce public spending and the national deficit was introduced. Like last time around, the Mayor will determine the 2012/13 budget for many of London's services – including police, fire, and transport – in the context of year-on-year reductions in central government funding. At the same time, he will gain direct control of the budgets for public spending on housing, regeneration and economic development in the capital, although these are also reducing.
- 1.2 Increasingly, as central funding reduces, the Mayor is having to make tough strategic decisions. In this report, we seek to highlight the options open to the Mayor and the factors he will need to take into account in choosing between them. For the GLA in particular, the funding situation is changing. New ways of raising funds are becoming more important as new responsibilities for housing and regeneration are incorporated. In the short term the Mayor is increasingly using borrowing to finance his priorities, which could have longer-term financial consequences.
- 1.3 Alongside grant funding and borrowing, the Mayor has two other main sources of income: the GLA Council Tax precept and public transport fares income. He has the option of offsetting reducing grants by increasing one and/or the other. The Mayor has not yet announced what he will do with the precept, but it seems likely that he will freeze it. Following the Government's announcement that it will give local authorities that freeze their council tax a one-off grant equivalent to a 2.5 per cent council tax rise next year, the Mayor would have to increase the precept by more than 2.5 per cent to make a precept rise pay.¹ Fares on the other hand will rise above inflation for the fourth consecutive year in January 2012, by an average of around seven per cent.²
- 1.4 Savings will be required across the GLA group in 2012/13 but the Mayor's Chief of Staff is confident that services can be protected. He believes it will be possible to achieve greater efficiency as budgets reduce, telling us in July he was "a passionate believer that saving money and reducing costs is not an excuse for poorer services". He

went on, “We have also got to drive out those inefficiencies and incompetencies within the organisation where we find them”.³

- 1.5 Beyond efficiency savings, the Mayor also has the option of moving funds between different parts of the GLA group. Last year, for example, the Mayor increased the resources available for policing by reducing the share of the precept directed towards fire services by £20 million and TfL and the GLA by small amounts. LFEPA accommodated this funding reduction by using some of its reserves. The Mayor may again choose to adjust the level of precept revenue directed towards each organisation within the group in 2012/13. Ultimately though, as we said this time last year, more radical approaches will be necessary in some areas because of the scale of funding reductions.⁴
- 1.6 The Mayor will publish his draft 2012/13 budget for consultation in December 2011. In January, the Committee will produce a formal response to the Mayor’s draft budget to inform the full Assembly’s debate on the Mayor’s proposals. At this stage, the Assembly will have the power to propose amendments to the Mayor’s draft budget with a simple majority. The Mayor will publish his final draft budget in February, either including the Assembly’s amendments or setting out his reasons for rejecting them. The Assembly will consider the Mayor’s final proposals and may amend them if at least two-thirds of Assembly Members vote to do so.
- 1.7 The purpose of the Budget and Performance Committee’s Pre-Budget Report is to highlight the key issues, opportunities and threats faced by the Mayor in determining the 2012/13 GLA group budget; set out some of the options open to him, including in relation to the Council Tax precept and public transport fares; and raise questions to be addressed during the budget-setting process. By doing this we seek to frame the debate before formal consultation on the draft budget commences in December.⁵
- 1.8 In chapters 3-6 of the report, we look one-by-one at the issues affecting the GLA and the functional bodies. Chapter 2 looks at issues affecting more than one part of the group, focussing on shared services, Olympics costs and expenditure relating to the disturbances in August. Appendix 1 provides details of GLA group budgets and how the organisations are funded.

2 Cross-group issues

Shared services

- 2.1 Shared services is a key plank of the Mayor's approach to finding efficiencies within the GLA group but there are questions around the size of the contribution shared services schemes will make to savings requirements.⁶ The Committee has been warning for some time that the target and timeline for savings look unrealistic.⁷ In May 2011, the target for annual savings was reduced and put back by a year.⁸ Barriers include the differing priorities of the different organisations; a focus on achieving internal efficiencies first; and implementation costs associated with new shared services initiatives.^{9,10}
- 2.2 These barriers have meant that progress has been slow. Although discussion around collaborative procurement began in 2006, shared service arrangements worth just £1.2 million in annual savings had been implemented by May 2011. This represents less than 0.5 per cent of the £300 million a year now hoped for.^{11,12}
- 2.3 The Mayor's Chief of Staff has indicated a shift towards a more assertive approach on shared services but there is little prospect of this enabling the £150 million savings target in 2012/13 to be met. He recently insisted that the savings would be achieved even if it meant cutting the budgets of the functional bodies.¹³ However, the Budget Guidance did not include savings requirements for the functional bodies to meet the 2012/13 shared services target. This suggests it is unlikely that cutting the budgets of the functional bodies is an option under consideration for 2012/13.
- 2.4 The Budget Guidance required the functional bodies to provide submissions on their savings from shared services. The submissions do not provide the requested information – potential savings from shared services have not been separated from savings from the functional bodies' overall savings programmes. Compared to the 2010/11 base year, annual savings by the MPS, LFEPA and TfL in the shared services areas are expected to be £254 million by 2013/14 (compared to the £300 million target). However, this includes savings resulting from the bodies' general savings programmes, not just from shared services initiatives.¹⁴ The submissions further demonstrate the focus by the functional bodies on their own internal savings programmes and the difficulty of assessing progress towards the Mayor's shared services target.

- 2.5 If shared services are to make a substantial contribution to relieving the short-term financial constraints faced by the GLA group, we would expect to see a framework for delivering them in the budget process. For example, evidence that savings were being built into future budgets would give us more confidence. Similarly, we would like to see a proportion of savings – beyond those required to cover grant reductions – being set aside for investment in the shared services programme, since it is clear from the initiatives so far delivered that the GLA group will need to invest to save.¹⁵

UConclusion

- 2.6 **The Mayor's draft consultation budget should include the details of specific shared services projects within proposed savings and efficiencies for the relevant organisations. Without this evidence of progress, or policy levers being put in place to put pressure on the functional bodies, the Mayor will need to identify other sources for the savings promised from shared services.**

The 2012 Olympic and Paralympic Games

- 2.7 The GLA group is providing £875 million towards the £9.3 billion budget for the Games. This is made up of a maximum of £625 million from London Council Tax payers and a £250 million contribution from the LDA.¹⁶
- 2.8 Additionally, there will be substantial exceptional costs to GLA group organisations in the run up to, and during, the Olympics.^{17,18,19} While the majority of the headline costs of the Games do not fall under GLA group budgets or are being reimbursed by government, additional indirect and opportunity costs will arise from the Olympics operation and enhanced requirements for business as usual services. The Assembly has previously highlighted the challenge for London's emergency services and the MPS Assistant Commissioner described funding as "The big issue for us all".²⁰

Conclusion

- 2.9 **Games-related costs and associated financial risks should be addressed in detail in budgetary proposals for 2012/13. For example, what estimate has been made of the additional costs to the police and the fire service during the Games? What is**

the range of potential costs that the MPA and LFEPA are using for planning? What assurances have been received from the Government that if current budgets are overspent it will make additional funding available?

- 2.10 The Committee intends to look further at the costs of policing the Games at a meeting with the MPS on 1 November.

Longer-term costs

- 2.11 There could also be costs to the GLA group continuing after the Games. It was announced on 11 October that the Olympic Park Legacy Company (OPLC) is changing its post-Games approach to the Olympic stadium. Rather than looking to sell it, the OPLC now intends that the stadium will be retained under public ownership and that new bids will be invited from potential users under a leasehold arrangement.
- 2.12 This could result in new financial risks for the GLA group. The OPLC, which is currently jointly owned by the Mayor and the Government, is set to become a Mayoral Development Corporation (MDC) and a full member of the GLA group on 1 April 2012.²¹ Consequently, it appears that any net operational costs associated with the stadium could fall to the Mayor.

Conclusion

- 2.13 **There will be financial implications for the GLA group stemming from OLPC's decision to abandon plans for the sale of the Olympic stadium. These should be discussed in the draft budget for 2012/13, due to be published in December.**

Disturbances

- 2.14 The Committee has started looking at the potential costs to the GLA group of the August rioting and looting. There are essentially three aspects:
- costs of dealing with the riots;
 - short-term costs to get businesses back working; and
 - longer-term costs of regenerating damaged and neglected high streets and town centres.

Uncertain costs could present a risk to budgets in 2012/13 and beyond, particularly for the GLA and the police.^{22,23,24,25}

- 2.15 Given the pressures already on the police to find savings, any requirement of the MPA to cover the exceptional costs of the disturbances – £190 million and rising (before accounting for opportunity costs) – is likely to have an adverse effect on service levels in London.²⁶ We therefore support the Mayor and the MPA in requesting a specific grant from government to cover all additional costs incurred. This includes spending on overtime, equipment, cancelled leave, assistance from other forces and compensation claims under the Riot (Damages) Act 1886.

Conclusion

- 2.16 **The Mayor should provide a full account of additional costs relating to the disturbances, the extent and terms of government reimbursement and resulting budgetary implications to be provided to the Committee as soon as they are available. Any budgetary implications for 2012/13 should be set out in detail in the draft consultation budget in December.**

3 Greater London Authority

Funding for new responsibilities

- 3.1 The Mayor's request for further devolution of budgets and responsibilities to the GLA will be fulfilled in April 2012. It will, though, be at a time of reducing funding, not least for the new functions: economic development, regeneration and housing.²⁷ The Mayor and his Chief of Staff have been clear that the intention is to protect services by cutting back-office waste and inefficiency. However, the scale of the reductions in funding for economic development and housing mean that spending on programmes and capital investment will decline.²⁸
- 3.2 The transfer of budgets and responsibilities between organisations makes comparisons over time of value for money difficult. Programmes in areas such as housing, economic development, regeneration and climate change were designed to meet particular – in some cases acute – needs and budget reductions will affect what can now be achieved.²⁹ To understand how effectively the GLA is performing in these areas with the new level of resources, we need to know what funding was available in previous years and what outcomes were produced with it.

Conclusion

- 3.3 **The Mayor's draft consultation budget should include analysis of funding, savings proposals and spending plans so that 2012/13 and future years can be compared to the situation in 2011/12 at the predecessor organisations – HCA London, the LDA – and at the GLA for existing GLA programmes.**

Sources of additional funding

- 3.4 Beyond the funding set out in the budget guidance, the Mayor will have at least £23.5 million of additional funding. This will either come from the Government's council tax freeze grant or from the Mayor deciding to raise the precept by more than 2.5 per cent. This is the second year that the Government has offered local authorities an incentive for freezing the council tax, but early indications are that, unlike last year, it will only be available for one year.³⁰
- 3.5 The GLA is increasingly looking at alternative ways of raising money as its responsibilities increase and grant funding reduces. The more innovative, such as Tax Increment Financing and business rates

retention, are some way off but prudential borrowing is already being used. Since the 2011/12 budget was set, the GLA has announced new plans to borrow £110 million over the next four years, including £22 million this year. This is mainly to fund capital regeneration projects in outer London and the areas affected by the August disturbances and includes a £50 million regeneration fund.³¹

- 3.6 The capacity for borrowing to support Mayoral objectives may already have been reached. The Committee was told that the £110 million of borrowing planned would use all the GLA's current borrowing capabilities. Any additional borrowing in future years would therefore require the GLA to find new funding streams to borrow against.³² However, we heard in September that the final decision about the extent of the borrowing requirement had not been made and could be reduced by underspends, additional capital receipts and "other funding sources".³³
- 3.7 The level of borrowing has consequences for future spending decisions and therefore must be justifiable in terms of value for money, strategic fit and future financial implications. From 2014/15, and for an unspecified period, there will be an ongoing annual cost to the GLA of over £10 million for interest and loan repayments, which will reduce the amount of revenue funding available in future years.³⁴ The approval document for the Outer London Fund, signed by the Mayor and requiring £40 million of borrowing, did not include any information about expected economic benefits, the timing of repayments or interest costs.³⁵ The LDA Board had this level of analysis when making similar investment decisions and would have based such decisions on a more detailed business case.³⁶ We therefore conclude that the business case for borrowing £40 million for the Outer London Fund has not yet been made.

Conclusion

- 3.8 **We expect future Mayoral decisions committing the GLA to long-term borrowing to be supported by more information. In particular, the Mayor's decision on the new £50 million regeneration fund for riot-affected areas should demonstrate that the Mayor has looked at other options for spending this money and set out the basis on which he has decided that the proposed spending represents the best value for money. The decision should include a detailed funding strategy as well as an assessment of the programme's net present value based on**

analysis of expected future benefits and costs. In response to this report, the Mayor should make a commitment to providing this information.

3.9 There also needs to be clarity about the level of borrowing required by the GLA in 2012/13 and beyond for regeneration programmes. Even if the final level has not been set by the time of the draft budget in December, information should be included about the potential parameters. We note that expected borrowing for GLA activities during 2011/12 went up from zero to £42 million after the final budget was agreed in February 2011³⁷ and expect the situation to be made clearer earlier in the process this year.

3.10 Finally, the Government has proposed business rate reforms and legislation allowing Tax Increment Financing from April 2013. This would result in greater local financial autonomy and incentives for local authorities to promote economic development. Discussions are ongoing between the GLA and London Councils on how a retained business rates system could work in the capital.³⁸ There are bound to be concerns around how revenue would be distributed under any new system but we consider that any disagreements should be resolved at a London level.

Conclusion

3.11 We support the principle of business rate retention and devolved decision-making in relation to its distribution at a London level. The Mayor should comment on the issues raised by the proposal in his response to this report.

Savings requirements

3.12 The savings requirement for the GLA's existing functions is 65 per cent (£1.1 million) more than that required by the anticipated grant reduction in 2012/13.³⁹ The intention is to provide some headroom and flexibility to support Mayoral priorities, such as the regeneration projects discussed above with long-term revenue commitments to service and repay borrowing.⁴⁰ Supporting them with additional savings from the GLA's existing functions now will add to the challenge for the existing functions in 2013/14 and 2014/15 when they will need further savings to cover reductions in government grant of up to ten per cent each year.⁴¹ This raises questions about the

extent to which GLA spending on delivery, which used to be undertaken and paid for by other organisations, is being funded by cuts to the GLA's existing strategic activities.

- 3.13 Indicative grants levels are set out for four years in the CSR to allow longer-term planning. It should be possible at this stage to see why the GLA is planning to overachieve in terms of savings from existing functions this year and the approach to and scope for savings in later years. This would allow us to assess the rationale behind the plan to spend additional savings in 2012/13 on regeneration projects, rather than, for example, contributing towards reserves or invest-to-save projects.

Conclusion

- 3.14 **Alongside savings proposals for 2012/13, we ask that the consultation draft budget sets out how likely savings requirements in 2013/14 and 2014/15 were taken into account and what approach will be taken in finding them.**

Closing down the LDA and the transfer of LDA and HCA London assets and liabilities

- 3.15 We need firm confirmation, before the end of the budget-setting process, that the Government will cover the repayment of outstanding Olympic land liabilities. Although the LDA's repayment strategy relies on average annual grant funding of £55 million up to 2018/19, no such funding has been provided in 2014/15, the final year of the existing four-year LDA grant settlement.⁴² Furthermore, the Government has not given confirmation that GLA grants for 2014/15 to 2018/19 will include additional funding to cover these liabilities. The GLA is confident that this matter will be revisited by government and that the issue will be resolved but the current uncertainty, highlighted by the Committee a year ago, remains a potentially serious risk to the GLA's future finances.^{43,44}
- 3.16 The transfer of HCA assets and liabilities to the GLA is also yet to be fully resolved. Negotiations are ongoing with government and the GLA expects a positive result. Nonetheless, while the practicalities of the transfer progress apace, decisions with potentially significant consequences are yet to be made – including whether the GLA will have to pay for HCA land.⁴⁵ These discussions, along with uncertainty

around future housing grants, make it hard to assess what the GLA will be able to achieve when it takes responsibility for this area.

Conclusion

- 3.17 **We support the Mayor and his team in their negotiations relating to the LDA and the HCA and ask that details of the outcome are provided to the Committee as soon as they are available.**

Decision-making and performance management

- 3.18 The Committee welcomes the establishment by the Mayor's Chief of Staff of the Investment and Performance Board. Primarily, it is a response to the changing role and increased responsibilities of the GLA in terms of economic development, regeneration and housing. In addition, the Chief of Staff intends that it will play a strategic role in terms of coordinating group-wide spending.⁴⁶
- 3.19 Details of exactly how the Board will operate are still to be determined and there are questions around its remit and how it will interact with other decision-making bodies. For example, should there be a TfL representative if the Board is to exert any control over TfL spending; and what is the relationship with TfL's own board? How will the Board's investment decisions link to those of other investment and delivery organisations where the Mayor is represented, including from April 2012 the London Local Enterprise Partnership and the Mayoral Development Corporation? Could some private papers be released when the reasons for confidentiality no longer apply, for example when contracts have been awarded?

Conclusion

- 3.20 **The Board is in its infancy but it needs a clear strategy for how it will coordinate its work with that of other GLA functional bodies and organisations under the Mayor's influence. We ask that a response to the questions in paragraph 3.18 is included in the Mayor's response to this report. A particular concern of the Committee is the lack of a TfL representative on the Board, which calls into question its aspiration to coordinate spending decisions beyond the core GLA.**

4 Policing

Changes to policing oversight structures

- 4.1 The structures responsible for setting London's policing budget and holding the Metropolitan Police Service (MPS) to account are changing. The Metropolitan Police Authority is due to be abolished and replaced by the Mayor's Office of Policing and Crime (MOPC) and a London Assembly Policing and Crime Panel. The MOPC will be responsible for maintaining an effective and efficient police service and the PCP will have responsibility for scrutinising the MOPC.⁴⁷
- 4.2 The MOPC will be a functional body of the GLA and as such the Assembly will have similar powers in relation to it as it currently has with the MPA. For example, the Assembly, through its new Police and Crime Panel, will be able to require the attendance at meetings of certain individuals including: the Mayor in his MOPC capacity; the Deputy Mayor for Policing; and staff of the MOPC. Similarly, the Police and Crime Panel will be able to summons the MOPC to produce certain documents.
- 4.3 Although the new bodies to be established will inevitably develop over time, the principles underlying the scrutiny of policing budgets will not change significantly: the Mayor will continue to be responsible for proposing the police budget; the Assembly will continue to be responsible for agreeing it as part of the budget-setting process and scrutinising it in public.

The 2012/13 budget and savings requirements

- 4.4 The MPS says it will be a big challenge to deliver the savings required during the next financial year and beyond.⁴⁸ Its general grant is set to reduce by £136 million (seven per cent) in 2012/13, requiring savings of £93 million. The Mayor's Budget Guidance anticipates further year-on-year savings requirements of £82 million in 2013/14 and £80 million in 2014/15.⁴⁹ It will not be feasible for the Mayor to raise the precept or adjust the precept allocation sufficiently to substantially offset the grant cuts because of the scale of the policing budget.⁵⁰
- 4.5 This challenge risks being bigger because of overspending this year. Any cost overruns in 2011/12, or the failure by government to cover the exceptional costs of the August disturbances, could push up savings requirements and eat into reserves that could otherwise be used in future years. So far, projections for the 2011/12 overspend

are within the contingency allocation and previously overspends after the first quarter have become underspends by year-end.⁵¹ However, past efforts to control spending may have gone beyond finding additional efficiency savings. At the end of last year, for example, the MPS had 632 fewer officers than the original budget planned for, enabling the budget to balance.⁵² This year, pressure to increase officer numbers may make it harder to bring the overspend under control in this way.

- 4.6 From a public perspective, the most important thing is the effect of measures to bring about savings on the force's ability to provide effective policing: its operational capacity. We identified in our recent report where savings might be available without affecting operational capacity. We concluded that savings on the scale required are likely to require workforce changes, both to the mix between officers and civilian staff and to deployment between operational, operational support and support roles.⁵³
- 4.7 The public and political concern with officer numbers may put pressure on the police to find the necessary savings through reductions in civilian roles. As we identified in our report, this approach may not be the most efficient and may result in officers coming off the front line to do back-office tasks which could be done by civilians. With police staff and PCSO numbers recently reducing faster than officer numbers, there is a risk that finding savings through the civilianisation of back-office roles may become more difficult.⁵⁴

Conclusion

- 4.8 **We continue to highlight the importance of looking in the round, beyond a simple focus on officer numbers, at overall capacity and the activities officers and staff are carrying out. When the Mayor is considering police savings proposals, he should check for potential unintended consequences, such as a need for officers to come off front-line duties to cover roles previously undertaken by civilians.**
- 4.9 **December's consultation draft budget should therefore include sufficient information to enable the effect of proposals on operational capacity to be assessed.**

A tool to analyse operational capacity?

- 4.10 The MPA has responded positively to our request that existing workforce composition data should be made available to public scrutiny. We have previously asked that the MPS's OPM analysis of operational, operational support and support roles, and the balance between officers and civilians, be included as standard in monthly reporting, in order that changes could be monitored.⁵⁵ Since the information is already compiled for internal use by the MPS, its provision would not add to the administrative burden. It would, on the other hand, increase the transparency with which decisions about changes to the workforce are made.⁵⁶
- 4.11 We were disappointed by the Mayor's response to our report. We had asked him to present his commitment to increase front-line policing in 2011/12 in the terms used for OPM analysis. There was universal agreement during our investigation that front-line policing was an ambiguous term – a fact acknowledged by the Deputy Mayor for Policing who had committed to work to move the debate forward. Using OPM, or a similar model, would allow the Mayor to demonstrate how operational capacity is being protected as budgets reduce. The analysis the MPS has already carried out means it would not have required, as the Mayor suggested, the MPS to "commit more resources to understanding the 'front line'".⁵⁷
- 4.12 The MPA's response to our report was however constructive and we are pleased that the MPA and MPS would like to meet to discuss how to take our recommendations forward.⁵⁸ Through discussion, we hope to be able to find a balance where more information is made publicly available about how workforce changes affect the force's operational capacity without significantly increasing the MPA and MPS's workload.

Conclusion

- 4.13 **We welcome the MPA response to our report, *Policing in London* and will arrange a meeting for later in the year with MPA/MOPC and MPS officers to discuss how to take our recommendations forward.**

5 Fire services

LFEPA's approach to funding reductions

- 5.1 LFEPA's funding is reducing more steeply in the first two years of the CSR period than grant reductions, which are backloaded to 2013–15 for fire authorities.⁵⁹ The increased reduction in LFEPA's funding is a consequence of the Mayor's decision last year to reallocate £20 million (11 per cent) of LFEPA's precept funding to the MPA.⁶⁰ In return, LFEPA was permitted to use its reserves to balance its budget in 2011/12. The intention was that it would use £19 million during the year from a starting total of £56 million, leaving the reserves above the minimum reserves policy of £30 million.⁶¹
- 5.2 The Mayor confirmed in May that LFEPA should plan for future years on the basis of the reduced level of precept funding it received in 2011/12, which resulted in a change in the planned use of reserves.⁶² Reserves are a one-off source of funding and so could not be used annually to cover what now looks to be a permanent reduction in precept funding. LFEPA now plans to deliver additional savings during 2011/12 and current estimates are that it will only need to use £6 million of reserves.⁶³ This will leave LFEPA with £50 million of reserves at the start of 2012/13.⁶⁴
- 5.3 Any decision by the Mayor, on the basis of LFEPA's reserves, to further reduce its precept allocation could have implications for its ability to meet the savings requirements of the second half of the CSR period. LFEPA's Chairman recently stated that he expects a further £20 million (or more) of its precept funding to be reallocated to the MPA in 2012/13.⁶⁵ If the Mayor does so, it will reduce LFEPA's reserves in 2012/13 to at or even below the authority's minimum reserves policy. These additional reserves could have been used to cover the upfront costs of invest-to-save programmes. If he is to propose reducing these reserves, the Mayor needs to satisfy himself that LFEPA can find sufficient savings to cover the increasingly challenging grant reductions expected in 2013/14 and 2014/15.

Conclusion

- 5.4 **The Mayor should be clear about how the needs of the fire service have been considered if he were to decide again to use LFEPA reserves to provide additional resources for policing in 2012/13. Any such decision should also be made sooner this year: the change in the allocation of the precept was not included in last year's December consultation budget because**

of the uncertainty caused by the CSR; any further adjustment should be made at the beginning of the consultation process so there can be a proper assessment of the potential implications.

- 5.5 On LFEPA's part, there is a need to plan for more fundamental changes. Savings to date have come partly from deleting vacant posts and in other relatively easy areas. In December's consultation budget, we would like to see a plan emerging for the harder challenges approaching in the second half of the CSR period.**

6 Transport

Savings

- 6.1 TfL is confident that it will be able to deal with a reduction in its four-year grant to 2014/15 of £2.2 billion by finding savings.⁶⁶ Following the CSR, TfL's total cumulative savings requirement rose to £7.6 billion by 2017/18.⁶⁷ This required TfL to reduce its planned annual spending of around £9 billion by an average of around £1 billion each year until the end of the period.⁶⁸ TfL says it has made good progress towards meeting this savings target, announcing recently that it had already "secured" more than two thirds of the required spending reductions through actions completed so far.⁶⁹
- 6.2 There are questions about the balance between efficiency savings removing wasteful spending and savings through cuts in spending on services. The Mayor and TfL have presented the savings target as the amount by which TfL can become more streamlined with no adverse affect on passengers.⁷⁰ There are, though, indications that TfL is considering options for saving money which involve ceasing lower priority service-related activity. The Transport Committee recently concluded that TfL had in some cases started to reduce expenditure on the Underground by deferring pieces of upgrade work or ceasing to do them altogether.⁷¹

Conclusion

- 6.3 **Alongside the draft consultation budget in December, TfL should provide the Committee with a high level breakdown of the actions it has determined to reach two thirds of its savings target. This would allow us to assess TfL's approach to dealing with grant reductions and gain a better understanding of how Londoners will be affected as budgets for public transport become tighter.**

Allocation of future fares surpluses, underspends and unexpected additional savings

- 6.4 TfL has used higher than anticipated fares income to help balance its books following the reductions in its grant. Demand for public transport rebounded more strongly than TfL expected after the economic downturn and TfL said that the resulting additional fares revenue had been an important factor in allowing it to "absorb" grant reductions.⁷² Alongside past additional fares revenue and the savings outlined above, TfL's revised Business Plan, which set out its new

approach following the CSR, also included an expectation of future above-inflation fares rises.⁷³

- 6.5 The Business Plan also sets out how there has been a move from centrally provided funds for TfL in the form of government grants towards an increasing reliance on locally raised funds in the form of fares. In 2011/12 fares revenue provided 43 per cent of TfL's total funding (excluding Crossrail). By 2014/15 fares revenue will have increased to 55 per cent.⁷⁴
- 6.6 Fares and their relationship to the overall health of TfL's finances are a source of ongoing debate. Any fares revenue over and above the projections in the revised Business Plan is likely to lead to calls for future fares rises to be moderated. Looking at projections for 2011/12, it looks again like fares revenue will over-perform, although at this stage only by around £30 million (under one per cent of total fares revenue).⁷⁵ Based on these figures, the current Mayor recently decided to confirm TfL's assumption of a two per cent above inflation fares rise in January 2012, saying it was needed to invest in the transport network to maintain and improve services.⁷⁶
- 6.7 Another key factor in TfL's financial position is expenditure. 2010/11 figures indicate a more prudent approach: during the year TfL underspent by over £1 billion, including overachievements in its savings programme.⁷⁷ Even after the production of the Business Plan in March, a further underspend of £219 million – mainly one-off savings such as unused contingency budgets – emerged before year-end.⁷⁸ TfL's Chief Financial Officer told us, "We regard that as a contribution to our overall savings target".⁷⁹

Conclusion

- 6.8 **We think Londoners would want to be reassured that unexpected improvements in TfL's financial position were not being used to ease pressure on TfL's long-term savings programme, which should aim to cut identified waste and unproductive spending. We ask that the draft consultation budget this year and in future years sets out how any unanticipated fares revenue, underspends or overachievement against savings targets will be treated.**

7 Conclusion

- 7.1 Through this report we have sought to highlight the key issues facing the Mayor as he sets the 2012/13 budget and raise questions to be addressed through the budget-setting process.
- 7.2 The difficulty for the Mayor of setting the budget continues to grow. We are now entering the second of a four-year programme of year-on-year grant reductions. While savings continue to be sought through cutting out waste and finding efficiencies, the challenge involved in protecting services increases, as does the importance of being able to demonstrate that every pound is put to good use.
- 7.3 The GLA has the added complication of taking on new responsibilities for housing, regeneration and economic development projects. Reductions in government funding in these areas will bite into what can be achieved and make sound decision making all the more important. The GLA will need to be an effective delivery agency from day one – 1 April 2012 – if the devolution of these functions is to be seen as successful.
- 7.4 Thought is being put into potential new ways of paying for the GLA's new activities. We have highlighted that borrowing is increasingly being used in the short-term but proposals under the Government's localism agenda may also change the way the GLA raises finance. From 2012/13, it may be possible for the GLA to make use of land currently held by the LDA and the HCA in London. Localisation of business rates may also create opportunities, including the possibility of borrowing against future revenue using Tax Increment Finance. Finally, there is the Community Infrastructure Levy – a new power under the Planning Act 2008 to raise money for infrastructure from local development. The Mayor has recently published proposals to raise £300 million for Crossrail in this way.⁸⁰
- 7.5 We are pleased to see that the GLA has set up an investment board as a response to these changes. As well as making decisions about GLA funding and expenditure, this group could be especially effective if it is successful in its intention to take a strategic overview of functional body spending, particularly in the area of shared services, which we have again identified in this report as being problematic. There would be much to be gained from greater coordination of the GLA group organisations. As well as efficiencies of scale, the Mayor's strategic position should allow him to ensure the services he controls add up to more than the sum of their parts.

7.6 As in every budget setting round, the Mayor will have important and difficult strategic decisions to make about the way funds are allocated. There will be consequences for Londoners of those decisions. We have sought to highlight in this report what options are open to the Mayor and the factors that he will need to take into account when choosing between them. For example:

- Should the Mayor require LFEPA to reduce its reserves further in 2012/13 to provide additional funding to the police? What consequences would this have on LFEPA's ability to deal with an increasingly challenging grant settlement in the years to come?
- How will the Mayor allocate additional income from either the precept freeze grant or an increase in the precept? There will be competing claims from the police, particularly in the light of the August disturbances and the forthcoming Olympics, and from those looking for funds to support the Mayor's new responsibilities for economic development and regeneration.
- How will funds be allocated within the GLA between supporting its new responsibilities for delivery and its pre-existing responsibilities to act as the strategic authority for the capital?

7.7 The GLA group budget is one of the main tools with which the Mayor can set a strategic direction for the capital and support his priorities. The budget to be set over the coming weeks will cover the period beyond the 2012 Mayoral election and include the period when London will host the biggest event in the world. This report sets out the issues we expect the Mayor to address as part of this crucial budget process.

Recommendation

The Mayor should respond to the conclusions of this report with the publication of the draft consultation budget in December.

Appendix 1 Details of GLA group budgets and funding

GLA

- 7.8 Current budget plans assume a small reduction in funding for the GLA's existing functions. The Mayor's budget guidance assumes that the GLA will receive funding for its existing functions of £136.3 million in 2012/13. £91.6 million is forecast to come from precept funding, as it did in 2011/12, and £44.7 million from a government grant.⁸¹ The forecast government grant is £1.7 million (3.7 per cent) less than in 2011/12 and assumes that government funding for the GLA's existing functions will reduce in line with planned nationwide funding reductions for local authorities over the four-year CSR period.
- 7.9 The GLA's overall budget will change fundamentally between 2011/12 and 2012/13 as new responsibilities are transferred from the LDA and HCA London. Government funding for the GLA in 2012/13 has not yet been confirmed but the GLA will be responsible for the management of over £600 million of funding for housing programmes and over £100 million of funding that would previously have gone to the LDA. In 2012/13, the GLA's budget will, therefore, more than quadruple.

Policing

- 7.10 In 2011/12, London had a gross budget for policing of approximately £3.5 billion with £2,025 million (58 per cent) coming from the government's general grant; £494 million (14 per cent) from the government's specific grants; £688 million (20 per cent) from the council tax precept; and the remaining £332 million (nine per cent) from other income, interest and reserves.⁸²
- 7.11 The Government plans to reduce its spending on policing by 14 per cent in cash terms over the CSR period. London's general policing grant was reduced by five per cent in 2011/12 and will be reduced by a further seven per cent in 2012/13.⁸³ This indicates that grant reductions averaging 1.4 per cent can be expected in 2013/14 and 2014/15. The Government's specific grants will peak in 2012/13 due to the additional funding for the Olympics. Specific funding is expected to increase by £66 million (13 per cent) to £560 million in 2012/13 before falling by as much as 40 per cent in 2013/14 to £331 million.⁸⁴

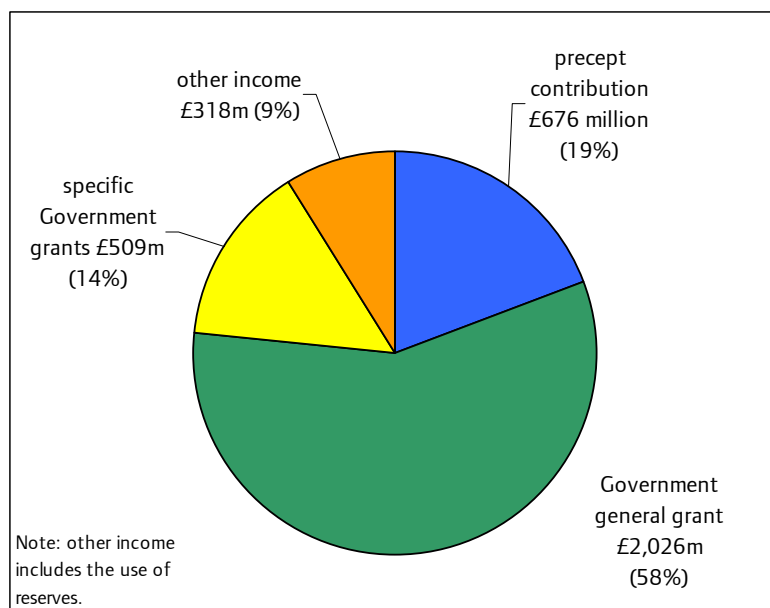


Figure 1: sources of police funding in 2011/12 (£3,528m)

Fire services

7.12 LFEPA sets and monitors the annual fire service budget, which stands at £453 million in 2011/12.⁸⁵ In terms of how this is funded: £252 million (55 per cent) came from government grant; £158 million (35 per cent) from the council tax precept; and £43 million (ten per cent) from other income and reserves.

7.13 Funding for English fire and rescue authorities is to reduce by 25 per cent in real terms over the four years to 2014/15, back-loaded to the final two years of the period. It is not yet known how these overall reductions will be shared between fire authorities as there is only a grant settlement for 2011/12 and 2012/13. However, a review of the formula used to distribute fire funding has so far benefitted LFEPA where the main grant will reduce by three per cent in 2011/12, and increase by 0.2 per cent into 2012/13. Some other metropolitan fire authorities will see grant reductions of over 12 per cent over the same two-year period.⁸⁶

7.14 The Government has not made it clear whether LFEPA's grant reductions will be higher in 2013/14 and 2014/15 to bring it in line with the national average over the CSR period. LFEPA have said that if this were to happen its grant would fall by approximately £55 million in cash terms (22 per cent) over 2013/14 and 2014/15.⁸⁷

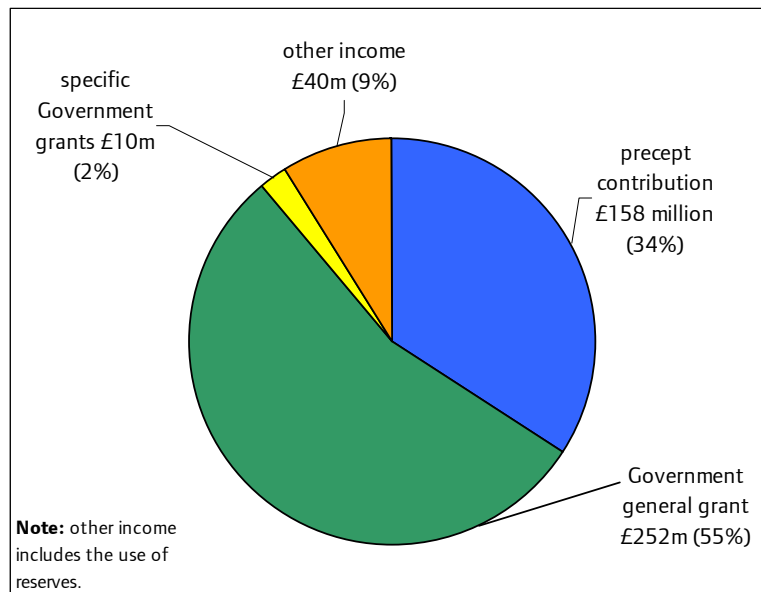


Figure 2: sources of LFEPA funding in 2011/12 (£460m)

Transport

7.15 TfL's latest budget sets out gross expenditure in 2011/12 of £9,296 million. In terms of how this is funded: £3,293 (35 per cent) came from all government grants; £5,997 (65 per cent) from fares, other income, borrowing and reserves; and £6 million (0.1 per cent) from the council tax precept.⁸⁸ The Mayor has executive powers to direct the level of TfL fares and also chairs the TfL Board.

7.16 The core transport grant provided to TfL by the Department for Transport is to be reduced by 21 per cent in real terms over the four years to 2014-15. As part of this TfL's grant reduced by seven per cent in cash terms in 2011/12 but will remain largely unchanged heading into 2012/13. Further grant reductions are expected in 2013/14 (4 per cent) and 2014/15 (11 per cent).

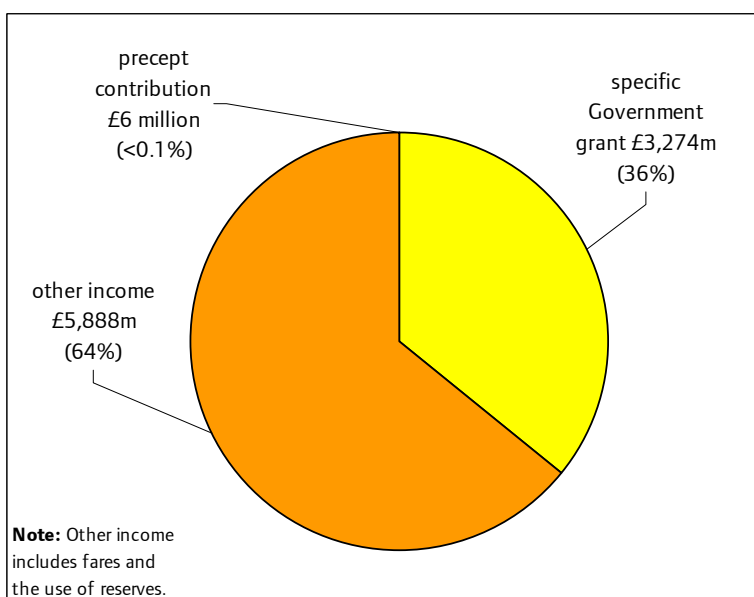


Figure 3: sources of TfL funding in 2011/12 (£9,168m)

Appendix 2 Summary of conclusions

Cross-group issues

Shared services

The Mayor's draft consultation budget should include the details of specific shared services projects within proposed savings and efficiencies for the relevant organisations. Without this evidence of progress, or policy levers being put in place to put pressure on the functional bodies, the Mayor will need to identify other sources for the savings promised from shared services.

The 2012 Olympic and Paralympic Games

Games-related costs and associated financial risks should be addressed in detail in budgetary proposals for 2012/13. For example, what estimate has been made of the additional costs to the police and the fire service during the Games? What is the range of potential costs that the MPA and LFEPA are using for planning? What assurances have been received from the Government that if current budgets are overspent it will make additional funding available?

There will be financial implications for the GLA group stemming from OLPC's decision to abandon plans for the sale of the Olympic stadium. These should be discussed in the draft budget for 2012/13, due to be published in December.

Disturbances

The Mayor should provide a full account of additional costs relating to the disturbances, the extent and terms of government reimbursement and resulting budgetary implications to be provided to the Committee as soon as they are available. Any budgetary implications for 2012/13 should be set out in detail in the draft consultation budget in December.

Greater London Authority

Funding new responsibilities

The Mayor's draft consultation budget should include analysis of funding, savings proposals and spending plans so that 2012/13 and future years can be compared to the situation in 2011/12 at the predecessor organisations – HCA London, the LDA – and at the GLA for existing GLA programmes.

Sources of additional finance

We expect future Mayoral decisions committing the GLA to long-term borrowing to be supported by more information. In particular, the Mayor's decision on the new £50 million regeneration fund for riot-affected areas should demonstrate that the Mayor has looked at other options for spending this money and set on what basis he has decided that the proposed spending represents the best value for money. The decision should include a detailed funding strategy as well as an assessment of the programme's net present value based on analysis of expected future benefits and costs. In response to this report, the Mayor should make a commitment to providing this information.

There also needs to be clarity about the level of borrowing required by the GLA in 2012/13 and beyond for regeneration programmes. Even if the final level has not been set by the time of the draft budget in December, information should be included about the potential parameters. We note that expected borrowing for GLA activities during 2011/12 went up from zero to £42 million after the final budget was agreed in February 2010⁸⁹ and expect the situation to be made clearer earlier in the process this year.

We support the principle of business rate retention and devolved decision-making in relation to its distribution at a London level. The Mayor should comment on the issues raised by the proposal in his response to this report.

Savings requirements

Alongside savings proposals for 2012/13, we ask that the consultation draft budget sets out how likely savings requirements in 2013/14 and 2014/15 were taken into account and what approach will be taken in finding them.

Closing down the LDA and HCA London assets and liabilities

We support the Mayor and his team in their negotiations relating to the LDA and the HCA and ask that details of the outcome are provided to the Committee as soon as they are available.

Decision-making and performance management

The Board is in its infancy but it needs a clear strategy for how it will coordinate its work with that of other GLA functional bodies and organisations under the Mayor's influence. We ask that a response to the questions in paragraph 3.18 is included in the Mayor's response to

this report. A particular concern of the Committee is the lack of a TfL representative on the Board, which calls into question its aspiration to coordinate spending decisions beyond the core GLA.

Policing

The 2012/13 budget and savings requirement

We continue to highlight the importance of looking in the round, beyond a simple focus on officer numbers, at overall capacity and the activities officers and staff are carrying out. When the Mayor is considering police savings proposals, he should check for potential unintended consequences, such as a need for officers to come off front-line duties to cover roles previously undertaken by civilians.

December's consultation draft budget should therefore include sufficient information to enable the effect of proposals on operational capacity to be assessed.

Operational capacity

We welcome the MPA response to our report, *Policing in London* and will arrange a meeting for later in the year with MPA/MOPC and MPS officers to discuss how to take our recommendations forward.

Fire services

LFEPA's approach to funding reductions

The Mayor should be clear about how the needs of the fire service have been considered if he were to decide again to use LFEPA reserves to provide additional resources for policing in 2012/13. Any such decision should also be made sooner this year: the change in the allocation of the precept was not included in last year's December consultation budget because of the uncertainty caused by the CSR; any further adjustment should be made at the beginning of the consultation process so there can be a proper assessment of the potential implications.

On LFEPA's part, there is a need to plan for more fundamental changes. Savings to date have come partly from deleting vacant posts and in other relatively easy areas. In December's consultation budget, we would like to see a plan emerging for the harder challenges approaching in the second half of the CSR period.

Transport

Savings

Alongside the draft consultation budget in December, TfL should provide the Committee with a high level breakdown of the actions it has determined to reach two thirds of its savings target. This would allow us to assess TfL's approach to dealing with grant reductions and gain a better understanding of how Londoners will be affected as budgets for public transport become tighter.

Allocation of future fares surpluses, underspends and unexpected additional savings

We think Londoners would want to be reassured that unexpected improvements in TfL's financial position were not being used to ease pressure on TfL's long-term savings programme, which should aim to cut identified waste and unproductive spending. We ask that the draft consultation budget this year and in future years sets out how any unanticipated fares revenue, underspends or overachievement against savings targets will be treated.

Appendix 3 Supporting information

Introduction

¹ If an authority sets its basic amount of council tax (i.e. its Band D council tax) in 2012-13 at a level which is no more than its basic amount of council tax in 2011-12, it will receive a one-off grant equivalent to a 2.5 per cent increase. Police and fire authorities are set to receive a three per cent increase. Consequently, the GLA group, in which the MPA and LFEPA receive the majority of precept funding, could receive more than 2.5 per cent but it is not yet clear exactly how the GLA group will be treated [HM Treasury press release, *Council tax freeze*, 3 October 2011].

² The Mayor has confirmed that fares will rise by two per cent above inflation in January 2012, in line with the planning assumption in TfL's Business Plan published in March 2011 [TfL press release, *Mayor confirms fares increase for 2012 to support unprecedented £12 billion investment in London's transport network*, 14 September 2011].

³ The Mayor's Chief of Staff speaking to the Budget and Performance Committee, 7 July 2011, transcript p. 14

⁴ We said the following in our 2011 Pre-Budget Report [Budget and Performance Committee, Pre-Budget Report 2010, December 2010, para 2.66]:

The scale of the retrenchment in public sector spending marks a watershed and will need a different response from input driven, 'salami slice' approaches to gaining efficiencies. Delivery of the savings that will be needed by the end of the CSR period will require a focus on outcomes in the Mayor's priority areas.

⁵ The purpose of the Pre-Budget Report was set out in the scoping paper agreed by the Committee at its meeting on 9 June 2011 [paper to the Budget and Performance Committee, *Proposal for the 2011 Pre-Budget Report*, 9 June 2011].

Cross-group issues

Shared services

⁶ The intention is that substantial annual savings will be made by instituting greater collaboration between the GLA and the functional bodies in areas including procurement and back office service provision. When we spoke to the Mayor in January he talked about

the “big prizes” available in this area [speaking to the Committee on 11 January 2011]. More recently, the Mayor’s Chief of Staff emphasised the advantages of shared services both in terms of savings and quality of service [speaking to the Committee on 7 July 2011].

⁷ In our Pre-Budget Report last year we highlighted the risks to the programme without “greater leadership from City Hall in coordinating the collective requirement to change” [Budget and Performance Committee, *Pre-Budget Report 2010*, December 2010]. In January 2011 we questioned whether the savings target would be achieved given the lack of progress and called for the Mayor to get personally involved [Budget and Performance Committee, *Assembly response to the Mayor’s consultation draft budget 2011-12*, January 2011)].

⁸ The original aim was to save £440 million a year by the end of 2012/13 – a 20 per cent cost reduction in the 2009/10 GLA group annual procurement spend of £2.2 billion over two years [letter to the Committee from the Mayor’s Budgets and Performance Advisor, 16 September 2010]. In May 2011 the aim was restated as saving £150 million in 2012/13 and a further £150 million of new savings in 2013/14 – an annual saving of £300 million (14 per cent of the GLA group’s combined procurement spend) from 2013/14 [report to the Business Management and Administration Committee, *Shared Services Update*, 25 May 2011].

⁹ The Mayor’s new Chief of Staff pointed towards a focus by the functional bodies on internal savings programmes and different requirements in terms of the timing of contract renewal [speaking to the Committee on 7 July 2011]. The problem of existing internal savings programmes conflicting with GLA group shared services objectives is particularly pronounced for the bigger organisations in the group – TfL and the MPS. The former Acting Commissioner of the MPS, for example, raised the need to “move towards internal shared services as essential first stage to working with other organisations” as one of a number of challenges. He also highlighted ongoing work to share services with other forces, which in some areas make for better partner organisations than those in the GLA group [Letter to the Committee from the Acting Commissioner, MPS, 14 September 2011].

¹⁰ For example, the largest initiative to date – the provision of GLA finance and procurement services by TfL – will save £800,000 a year

but there was an initial implementation cost of £2.4 million [Request for Mayoral Decision MD376, 9 July 2009].

¹¹ Savings of £300 million a year compared to the 2010/11 budget are expected from 2013/14 [report to the Business Management and Administration Committee, *Shared Services Update*, 25 May 2011]

¹² Report to the London Assembly Business Management and Administration Committee, 25 May.

¹³ The Chief of Staff told us in July, “We are just determined to force this through and I am afraid there are going to be some unhappy people, but so be it.” He went on to indicate that financial incentives might be used to force the functional bodies to engage with the shared services agenda [speaking to the Committee on 7 July 2011]:

At the end of the day, if we get too much opposition from these functional bodies we will just take the money out of the budgets anyway and make them do it. One way or another we are going to achieve this. Let’s be quite clear about this: we are going to get this through.

¹⁴ The table below shows the annual savings in the budget areas identified by the Mayor’s Budget and Performance Advisor that the MPS, LFEPA and TfL are expecting using 2010/11 as the base year. Annual savings compared to 2010/11 have been calculated using the savings identified in each year less the savings identified in 2010/11 [Shared services submissions by functional bodies in response to requests by the Mayor in the Budget Guidance document, <http://www.london.gov.uk/who-runs-london/the-london-assembly/investigations/budget-proposals>]

	2011/12	2012/13	2013/14
£m	savings	savings	savings
MPS	83.5	148.8	164.4
LFEPA	13.3	13.3	13.3
TfL	11.1	83.7	76.1
Total	107.9	245.7	253.8

¹⁵ For example, implementation costs of £2.4 million were required to set up the shared finance and procurement service between the GLA and TfL [Mayoral Decision 376, 9 July 2009]

¹⁶ See the DCMS London 2012 Olympic and Paralympic Games Annual Report, February 2011, p. 31 and the *Revised Memorandum of*

Understanding between the Government and the Mayor of London, June 2007.

The 2012 Olympic and Paralympic Games

¹⁷ The scale of the response to the Games will require the police and fire services to draw on existing staff, equipment and core budgets [Health and Public Services Committee, *Business as Usual?*, October 2010]. At the same time, they will have to cope with a large increase in London's population during Games time. Estimates have put the number of visitors that will stay overnight to visit Games events across the country at 0.9-2.8 million; in addition, there could substantial numbers of 'atmosphere tourists' coming to the capital to take part in planned cultural events [Olympic and Paralympic Health Programme, NHS London].

¹⁸ The Games will be London's biggest ever peacetime policing operation. As well as business as usual in the context of an enlarged population, the MPS will be responsible for dealing with the crowds moving to and from the Olympic venues and events, as well as any terrorist threats. The Government has agreed to provide funding for policing of £600 million but also expects the MPS to make reasonable adjustments to its core services in order to accommodate the security requirements of the Games [Home Office, *London 2012 Olympic and Paralympic Safety and Security Strategy*, July 2009, p 11]. (There is also a contingency of £238 million that can only be accessed if the threat level increases to 'critical' or if there is a change in terrorist attack methodology.)

¹⁹ LFEPA will have a full time operational presence within the Olympic park and at other venues during the Games. It will also need to provide cover for the range of cultural events taking place across the capital; be able to respond to emergency situations during the Games; and work to mitigate hazards and threats. In the run up, it will be involved in issuing local authority safety licences for Games-related events. LFEPA has received additional resources in order to carry out planning work for the Games but last year it was projecting a shortfall of £900,000 [submission to the London Assembly Health and Public Services Committee, 5 July 2010].

²⁰ The Met Assistant Commissioner told the Assembly's Health and Public Services Committee that funding was a key concern:

The big issue for us all, I think, is the issue of funding. What is going to happen over the next few months, and years, in relation to funding? Not only the funding specifically about the Olympics but our core funding, because that may have an impact on how we deliver this so, obviously, we are watching that carefully.

²¹ The existing Olympic Park Legacy Company (OPLC) is to be replaced by a Mayoral Development Corporation (MDC) in April 2012. Unlike the OPLC, which answers jointly to the Mayor and the government, the MDC will be a full member of the GLA group. The MDC will not be included in the 2012/13 GLA group budget-setting process because it will not exist before the beginning of the financial year. The Committee intends to examine the financial aspects of OPLC/MDC legacy plans separately and will meet OPLC representatives this autumn to discuss the forthcoming business plan.

Disturbances

²² It is still a fluid situation but the costs of the emergency response are now becoming clearer. The police put its costs at £41 million on 2 September, the majority being due to overtime and assistance from other forces. An additional £42.5 million of “opportunity costs” – resources from other policing activities – were also incurred [letter to the Committee from the Director of Resources, MPS, 13 September 2011]. The majority of LFEPA’s extra costs of around £100,000 were due to overtime and it anticipates the Government to reimburse the full amount [letter to the Committee from the Director of Financial and Contractual Services, LFEPA, 14 September 2011]. The financial implications for TfL totalled £5.2 million as a result of both lost fares revenue (£2.5 million) and additional costs (£2.7 million worth of damage to vehicles, infrastructure and property, as well as staffing costs related to special working arrangements, additional policing and security). TfL plans to make a £750,000 compensation claim under the Riot (Damages) Act [Commissioner’s Report, Item 4, TfL Board, 21 September 2011, p. 4-5].

²³ In terms of recovery and regeneration, there will be costs to the GLA and, at least initially, the MPA. The Mayor has contributed £500,000 to the High Street Fund charity which is paying small grants to businesses to get them back on their feet. He has also committed £50 million for longer-term regeneration projects in the affected areas. A proportion of this pot will be funded using GLA prudential borrowing.

²⁴ The MPA is liable for claims for the costs of some of the damage to property and contents under the Riot (Damages) Act 1886. As of 8 September, more than 515 claims valued at £150 million had been received by the MPA, following incidents in 28 boroughs. The MPS believed this total will rise because the time-limit for filing claims had not expired and the majority of claims were “probably yet to be made”, including potentially high value damage claims from insurers [report to the MPA, *Claims under the Riot (Damages) Act*, 15 September 2011].

²⁵ The extent to which policing budgets will ultimately be affected by costs relating to the disturbances is currently subject to negotiation. The MPS is hoping that the costs of the response and claims under the Riot (Damages) Act will be reimbursed by government. The Prime Minister has said the Treasury will “stand behind” police authorities that have damage claims made against them [speaking in the House of Commons, 11 August 2011]. However, there has not yet been a clear commitment to cover the full costs of either these potential liabilities or of the policing response to the disturbances. We are told that discussions are ongoing on both fronts, making it too early to assess budgetary implications in detail [letter to the Committee from the Director of Resources, MPS, 13 September 2011].

²⁶ Riot Act claims received by the MPA as at 8 September total £150 million [report to the MPA, *Claims under the Riot (Damages) Act*, 15 September 2011]. Estimated additional costs for the policing operation and ongoing related investigations totalled £41 million as at 13 September 2011 [letter to the Committee from the Director of Resources, MPS, 13 September 2011].

Greater London Authority

Funding new responsibilities

²⁷ Following the government’s decision to abolish Regional Development Agencies, the LDA’s functions and responsibilities are being folded into the GLA. Additionally, as part of the Government’s localism agenda, housing functions previously carried out by HCA London will be devolved to the GLA from April 201.

²⁸ The GLA will receive funding of £118 million from government in 2012/13 for its devolved LDA activities. This is £37 million (24 per cent) less than it received in 2011/12. The LDA forecasts that there will only be £25 million available for programme expenditure in

2012/13 compared to £77 million in 2011/12 [LDA Board written resolution, *Investment strategy and business planning final*, 25 March 2011]. The GLA's final government settlement for housing has not yet been announced, but the government has confirmed funding for its main investment programmes. London has been allocated £2.6 billion for its 2011-15 Affordable Homes and newly created Decent Homes programmes compared to £4 billion for its 2007-11 Affordable Homes programme [HCA Progress report to the Budget and Performance Committee, 12 September 2011 and HCA London, *Investment Statement 2008-11*, April 2011].

²⁹ An example of a programme where reducing future funding means uncertain future outcomes is Re:New. This homes retrofitting programme has £5.9 billion of LDA and GLA funding in 2011/12 and a target of retrofitting 55,000 homes by April 2012. This funding is due to end at that point and the programme will be reliant on increased levels of private sector funding from 2012/13. Ongoing targets for retrofitting have not been set [paper for the GLA Regeneration Investment Group, *Re:New Overview and Update*, 9 August 2011].

³⁰ If an authority sets its basic amount of council tax (i.e. its Band D council tax) in 2012-13 at a level which is no more than its basic amount of council tax in 2011-12, it will receive a one-off grant equivalent to a 2.5 per cent increase. Police and fire authorities are set to receive a three per cent increase. Consequently, the GLA group, in which the MPA and LFEPA receive the majority of precept funding, could receive more than 2.5 per cent but it is not yet clear exactly how the GLA group will be treated [HM Treasury press release, *Council tax freeze*, 3 October 2012]. Last year the Government's council tax freeze grant of 2.5 per cent was available each year up to and including 2014/15 [The GLA Consolidated Budget 2011-12, p. 4].

Sources of additional finance

³¹ The £110 million planned borrowing will be used to cover the Mayor's Outer London Fund's capital expenditure (£40 million); the Mayor's Regeneration Fund for town centres most affected by the August disturbances (£46 million); and other GLA/LDA capital projects (£24 million) [Letter from the Mayor's Chief of Staff to the Budget and Performance Committee, 6 Sep 2011]. Current borrowing plans will result in annual revenue costs of £8.9 million in 2012/13 rising to £11.1 million in 2014/15. The GLA is planning to pay these revenue expenses each year from a contingency of £10.9 million set

aside in the budget and partly funded by the Mayor's office and Assembly finding savings in excess of expected grant reductions in 2011/12 and 2012/13 [letter to the Committee from the Mayor's Chief of Staff, 6 September 2011].

³² The GLA Director of Resources told the Committee that "unless we can find some other income streams, [...], we are using all our financial capacity, there is not another £50 million available" [*Budget and Performance Committee Transcript*, 14 September 2011].

³³ The Mayor's Adviser for Growth Regeneration and Enterprise speaking at the Budget and Performance Committee, 14 September 2011, transcript p. 9,

³⁴ Current borrowing plans will result in annual revenue costs of £8.9 million in 2012/13 rising to £11.1 million in 2014/15. The GLA is planning to pay these revenue expenses each year from a contingency of £10.9 million set aside in the budget and partly funded by the Mayor's office and Assembly finding savings in excess of expected grant reductions in 2011/12 and 2012/13 [letter to the Committee from the Mayor's Chief of Staff, 6 September 2011].

³⁵ Request for a Mayoral Decision 840, *The Mayor's Outer London Fund*, 9 June 2011.

³⁶ Analysis given to the LDA Investment Committee and made publicly available on the *High Street 2012* regeneration programme show the level of information the Committee required before making investment decisions. When asked to approve spending on the programme, the Committee was provided with a *business case workbook* that included: costing and funding profiles over the programme's lifetime; forecast gross and net outputs; forecast outcomes and unit costs; and cost benefit analysis of different funding options including Net Present Value analysis [Paper to the LDA Investment Board, *Gateway B, High Street 2012*, 22 October 2009].

³⁷ Paper to the Budget Monitoring Sub-Committee, *2011-12 GLA Group Budget – Comparison of Mayor's Budget with Final Functional Body Approved Budget*, 19 July 2011, para 3.5

³⁸ The Government published on 18 July 2011 'Local government resource review: proposals for business rates retention: consultation', seeking views on proposals to allow councils to retain business rates

and to borrow against future rate income. The deadline for responses is 24 October.

Savings requirements

³⁹ The Budget guidance requests savings of £2.8 million of combined Mayoral and Assembly savings requirement compared to a forecast government grant reductions of £1.7 million in 2012/13 [*The Mayor's Budget Guidance for 2012-13*, May 2011, and letter to the Committee from the GLA Executive Director, 30 June 2011].

⁴⁰ The GLA Executive Director explained the basis of requesting savings in excess of expected grant reductions in 2012/13 in a letter to the Committee: "in setting savings targets for both 2011-12 and 2012-13 the Mayor has sought to obtain some additional headroom and flexibility, hence the savings targets in both years being higher than the grant reduction." [Letter to the Committee from the GLA Executive Director, 30 June 2011].

⁴¹ The GLA is forecasting a general government grant for its existing functions of £44.7 million in 2012/13, £40.4 million in 2013/14 and 36.1 million in 2014/15 [letter to the Committee from the GLA Executive Director, 30 June 2011].

Closing down the LDA and HCA London assets and liabilities

⁴² The LDA Olympic funding strategy, as at March 2011, relies on total grant funding of £384.1 million between 2012/13 and 2018/19. This is an average of £55 million each year [Paper to the LDA Board, *LDA Olympic Funding Strategy*, 16 March 2011]. The LDA grant includes funding of £3 million in 2014/15 [*Spending Review Settlement and Final allocation*, 10 March 2011].

⁴³ The Committee's report highlighted the risk to the GLA of accepting the transfer of all assets and liabilities from the LDA before receiving confirmation that the Government would provide the GLA with additional grant income to cover the repayment of these liabilities [Budget and Performance Committee, *The Finances of the Olympic Legacy*, 12 October 2010].

⁴⁴ The GLA Executive Director of Resources told the Committee that, from the perspective of the GLA, the LDA and those he has been talking to in Government, additional financing would be provided by Government to cover the LDA's ongoing Olympic land obligations

because it was part of the agreement made when the LDA transferred its Olympic land to the Olympic Park Legacy Company in 2010/11 [speaking to the Committee on 14 September 2011].

⁴⁵ The Committee heard that the GLA is confident that HCA's land in London will transfer to the GLA, but that Government has not yet confirmed whether this will happen at nil consideration or whether there will be some ongoing repayment obligations attached to them [Interim Executive Director Housing and Regeneration speaking at the Budget and Performance Committee meeting, 14 September 2011].

Decision-making and performance management

⁴⁶ The Mayor's Chief of Staff speaking at the Budget and Performance Committee meeting, 7 July 2011.

Policing

Changes to policing oversight structures

⁴⁷ The Police Reform and Social Responsibility Act, 2011, Chapter 2

The 2012/13 budget and savings requirement

⁴⁸ The Acting Commissioner highlighted the scale of the challenge the MPS faces in finding the required level of savings to balance its budget [*Acting Commissioner's Report, MPA Board paper*, 23 Jun 2011].

⁴⁹ MPA forecasted savings requirements [*The Mayor's Budget Guidance for 2012-13*, 27 May 2011, p. 5]:

£m	2012/13	2013/14	2014/15
Savings requirement	92.8	81.5	79.7

⁵⁰ The Mayor would need to increase the Band D council tax precept by approximately £45 (15 per cent) in order to cover the planned general grant reduction in 2012/13. Last year the Mayor increased the MPA's precept contribution by £26.6 million by reducing the precept contribution given to other functional bodies. Further redistributions of other functional bodies' precept allocations may be possible, but given that other functional bodies are also facing government grant reductions and the MPA already receives 74 per cent of all precept income, any further redistributions to the MPA are likely to be small.

⁵¹ At the end of July 2011, the MPA were forecasting a revenue overspend of £6.2 million for 2011/12. The 2011/12 budget includes a resilience provision of £25.1 million to safeguard against overspends and savings plans not delivering in the year [*Capital and Revenue Budget Monitoring 2011/12 – period 4*, MPA Finance and Resources Committee paper, 22 Sept 2011].

⁵² The 2010/11 outturn position shows the MPS was under strength by 632 police officer at 31 March 2011 compared to the original target set in the 2010-14 policing plan [paper to the MPA Finance and Resources Committee, *Revenue and Capital budget monitoring report 2010/11 provisional outturn*, 22 September 2011].

⁵³ *Policing in London*, our report into the future shape of the MPS (June 2011), noted that savings should be available by: reassessing the balance of resources between specialist units and regular policing; taking a more proportionate approach to risk management; the increased use of technology; and civilianisation.

⁵⁴ Between 31 January 2011 and 31 August 2011 police officer numbers fell by 703; police staff and PCSO numbers dropped by 1,008; and Special Constable (working 16 hours per month) numbers increased by 696 [*Police staff levels*, MPA website].

Operational capacity

⁵⁵ The Committee recommended in its report *Policing in London* that “the MPA/MOPC’s budget and quarterly performance monitoring reports should provide a breakdown of how its officers, special constables, PCSOs and other non-warranted staff are deployed between roles defined under OPM analysis”.

⁵⁶ Operational Policing Data is already being used by the MPS internally to manage the effective use of available resources [MPA Strategic and Operational Policing Committee paper, *Operational Policing Measures*, 9 December 2010].

⁵⁷ Part of the Mayor’s report, Mayor’s response, requested by the Assembly under s.60 (1) of the GLA Act, September 2011.

⁵⁸ MPA response to the Committee’s report, *Policing in London*, 4 October 2011

Fire services

LFEPA's approach to funding reductions

⁵⁹ Following the CSR, central funding for English fire and rescue authorities is set to reduce by 25 per cent in real terms over the four year period from 2011/12 to 2014/15. The majority of the reduction will be back-loaded to the second half of the period (ref CSR document and/or press release re. fire services afterwards). The overall reduction will not necessarily be shared equally between fire authorities nationally and LFEPA's grant cut in 2011/12 was lower than average. This followed a review of the formula used to distribute funding between fire authorities, resulting in a reduction of 3.3 per cent in LFEPA's 2011/12 government grant, compared to an average of 5.8 per cent [GLA, *Consolidated Budget and Component Budgets for 2011-12*, February 2011, para 5.5].

⁶⁰ In 2010/11, LFEPA received £178 million from the Mayor's Council Tax Precept. In 2011/12, this was reduced to £158 million.

⁶¹ GLA, *Consolidated Budget and Component Budgets for 2011-12*, February 2011, para 5.21.

⁶² The Mayor's Budget Guidance, May 2011, gave LFEPA's Council Tax Requirement as £157.7 million in 2012/13, 2013/14 and 2014/15 [p. 5].

⁶³ LFEPA has identified additional savings in 2011/12 by looking at the extent to which existing under spends can be taken as permanent budget reductions. These include "deleting a number of vacant posts and making reductions to non-staff budgets in the light of recent spending patterns and to reflect where it is possible to make further efficiencies" [paper to LFEPA, *Budget update*, 24 June 2011]. By comparison, achieving savings on this scale in future is likely to be more challenging and involve more significant levels of change and up-front investment.

⁶⁴ This will reduce the extent to which the general reserve will be used to balance the 2011/12 budget. It is now estimated that £6 million will be needed, leaving a general reserve balance of £50 million at the end of 2011/12 [LFEPA, *Quarterly Financial and Service Performance Monitoring for the period ending June 2011*, 6 September 2011].

⁶⁵ LFEPA's Chairman told the Assembly that he expected LFEPA's precept allocation to be reduced next year:

Also, Members of this Assembly will recall that last year £20 million was allocated to support the Mayor's policing budget this year. To be quite frank and honest, I envisage a similar request if not a greater request this year from the Mayor's office for support to the policing budget."

[London Assembly (Plenary) – 7 September 2011, Appendix 2, Transcript: Question and Answer Session: London Fire and Emergency Planning Authority, p. 21]

Transport

Savings

⁶⁶ The CSR reduced TfL's expected grant funding by £2.2 billion over the four years to 2014/15 [HM Treasury, *The Spending Review*, 20 October 2010]. The majority of the grant reductions will occur in the second half of the spending review period.

⁶⁷ TfL's savings programme has expanded over recent years. It's 2009 Business Plan included total cumulative savings of £5.2 billion in the period from 2009/10 to 2017/18. This was more than double the previous savings requirement. In response to the CSR, TfL increased the cumulative savings requirement to £7.6 billion by 2017/18 [TfL, *Business Plan 2011/12 – 213/14*, March 2011].

⁶⁸ TfL's savings programme requires it to make annual savings against its original spending plan as follows [letter to the Committee from TfL's Chief Finance Officer, 2 September 2011]. The difference between the net total savings of £7.6 billion and the total gross savings below are implementation costs of around £400 million.

£m	Prior years	11/12	12/13	13/14	14/15	15/16	16/17	17/18	Total
Gross savings	910	837	1,017	1,038	1,123	1,047	1,026	985	7,983

⁶⁹ TfL press release, *Mayor confirms fares increase for 2012 to support unprecedented £12 billion investment in London's transport network*, 14 September 2011.

⁷⁰ The Mayor said in his foreword to TfL's Business Plan, "TfL's efficiency drive has stepped up yet another gear. We have revised our savings target from £5bn to an even more staggering £7.6bn, and will ensure that this is delivered while protecting front line services." The Commissioner's foreword included the following [*TfL Business Plan*, March 2011]:

We are two years in advance of the rest of the public sector in delivering massive efficiency savings. We will save some £7.6bn over the course of this plan [...].

This includes a fundamental review of our back office and corporate functions to make us more efficient, ensuring that we can protect the front line services on which the people of London rely.

⁷¹ The Transport Committee pointed towards factors contributing towards underspends on the Underground upgrade programme including Piccadilly line upgrade scope deferrals and halting refurbishment work at some stations [London Assembly Transport Committee, *The State of the Underground*, 13 September 2011, p. 32].

Allocation of future fares surpluses, underspends and unexpected additional savings

⁷² TfL said in its Business Plan that around £800 million of the £2.2 billion reduction in TfL's grants to 2014/15 would be "absorbed by fare revenues rebounding strongly from the significant downturn seen in 2009" [*TfL Business Plan*, March 2011, p. 74]. In 2010/11, fares revenue collected by TfL was £178 million (6 per cent) greater than expected [paper to the TfL Board, *Operational and Financial Performance and Investment Programme Reports – Fourth Quarter 2010/11*, 29 June 2011, p. 18].

⁷³ The fares decision is taken each autumn by the Mayor. Nonetheless, TfL's Business Plan included an assumption that fares would increase at the level of inflation plus two per cent each January, based on Retail Price Index the previous July [*TfL Business Plan*, March 2011, p. 77].

⁷⁴ Over the four year CSR period the reductions to TfL's main grants will be offset by increases in fares revenue. In 2011/12 fares revenue provided 43 per cent of TfL's total funding. By 2014/15 this will have

increased to 55 per cent. TfL's core transport grant will over the same period reduce from providing 35 per cent of TfL's overall funding in 2011/12 to 31 per cent in 2014/15. The reduction seen in the 'Other income, grants & reserves' category is due to the Metronet grant which is not provided after 2013/14.

Sources of TfL funding (exc crossrail)	2011/12	2012/13	2013/14	2014/15
Fares	43%	48%	51%	55%
Core transport grant	35%	36%	34%	31%
Other income, other grants and reserves	22%	17%	15%	14%

Figures taken from the TfL Business plan 201/12–2014/15, Table 11 page 73

⁷⁵ Paper to the TfL Board, *Operational and Financial Performance and Investment Programme Reports – First Quarter 2011/12*, 21 September 2011, p. 17.

⁷⁶ The Mayor said the following [TfL press release, 14 September 2011]:

Income from fares is vital to ensure the on-going health of London's transport network, keeping services running for the billions of passengers who rely on them day in, day out. This is a fares package that continues my aim to put TfL's finances on a steady footing, moving us away from the boom and bust approach undertaken by my predecessor when we saw a succession of draconian increases and knee-jerk, unaffordable pre-election freezes. [...].

I understand that any increase in tough times is difficult. This is a package that has sought to balance the needs of today's passengers whilst ensuring we continue apace with plans to overhaul London's transport system in the face of unprecedented demand.

⁷⁷ TfL's financial performance was £1.3 billion better than expected during 2010/11. Of this, there was an underspend of just over £1 billion. including contributions from operating, capital and support expenditure [paper to the TfL Board, *Operational and Financial Performance and Investment Programme Reports – Fourth Quarter 2010/11*, 29 June 2011].

⁷⁸ The additional £219 million at the of 2010/11 came from additional savings (81 per cent), higher income (12 per cent, not principally

related to fares) and re-phasing of capital works (7 per cent) [letter to the Committee from TfL's Chief Finance Officer, 2 September 2011]. The majority of the additional savings were one-off in nature, such as unused contingency budgets, which means they cannot be reallocated for recurring expenditure commitments. They could be used to fund capital projects or the up-front costs of projects to deliver savings.

⁷⁹ TfL's Chief Finance Officer speaking to the Budget Monitoring Sub-Committee, 19 July 2011, transcript p. 1.

Conclusion

⁸⁰ See the Mayor's press release, *Mayoral Community Infrastructure Levy*, 31 August 2011.

⁸¹ Letter from the GLA Executive Director, to the Committee, 30 June 2011.

⁸² *Policing London Business Plan 2011-14*, p. 32.

⁸³ *Policing London Business Plan 2011-14*, p. 29

⁸⁴ *Policing London Business Plan 2011-14*, p. 34

Appendix 1

⁸⁵ This is based on the revised budget for 2011/12 set out in the Quarter 1 report to LFEPA's Finance and Personnel Committee, 24 June 2011.

⁸⁶ GLA consolidated and component budget 2011/12, February 2011, p. 71.

⁸⁷ Paper to the LFEPA Finance and Personnel Committee, *Budget Update*, 24 June 11, p. 2.

⁸⁸ TfL, *2011 Business Plan*, p. 73

⁸⁹ Paper to the Budget Monitoring Sub-Committee, *2011-12 GLA Group Budget – Comparison of Mayor's Budget with Final Functional Body Approved Budget*, 19 July 2011, para 3.5

Appendix 4 Orders and translations

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Vietnamese

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Hindi

यदि आपको इस दस्तावेज़ का सारांश अपनी भाषा में चाहिए तो उपर दिये हुए नंबर पर फोन करें या उपर दिये गये डाक पते या ई मेल पते पर हम से संपर्क करें।

Bengali

আপনি যদি এই দলিলের একটা সারাংশ নিজের ভাষায় পেতে চান, তাহলে দয়া করে ফো করবেন অথবা উল্লেখিত ডাক ঠিকানায় বা ই-মেইল ঠিকানায় আমাদের সাথে যোগাযোগ করবেন।

Urdu

اگر آپ کو اس دستاویز کا خلاصہ اپنی زبان میں درکار ہو تو، براہ کرم نمبر پر فون کریں یا مذکورہ بالا ڈاک کے پتے یا ای میل پتے پر ہم سے رابطہ کریں۔

Arabic

الحصول على ملخص لهذا المستند بلغتك،
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العنوان البريدي العادي أو عنوان البريدي
الإلكتروني أعلاه.

Gujarati

જો તમારે આ દસ્તાવેજનો સાર તમારી ભાષામાં
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