

Budget and Performance Committee response to the Mayor's 2010/11 draft Capital Spending Plan

1. Introduction and overview

The Budget and Performance Committee met finance officers from the GLA and the functional bodies on 19 January 2010 to discuss the draft Capital Spending Plan. Because the publication and examination in January¹ of the draft Plan occurs before the end of the financial year, it is based on – at best – quarter 3 monitoring data and forecasts. More up-to-date information may be available before the publication of the agreed Capital Spending Plan six weeks later, although we recognise the difficulty of making substantial changes after the consultation period.

These constraints mean the boards of the functional bodies often adopt substantially adjusted capital programmes from March, taking account of the most up-to-date information, compared to those set out in the Capital Spending Plan presented to the Assembly for consultation. As such, a considerable level of uncertainty around capital spending in 2010/11 remains at this stage.

First, there are a number of areas where costs or funds available for spending could be subject to changes as a result of external factors, outside the direct control of the Mayor. The Committee examined three of the larger areas of uncertainty in the capital programmes due to external factors: the transfer of Olympic Park land to the Olympic Park Legacy Company (OPLC); the Tube Lines Public Private Partnership (PPP) contract to upgrade the Jubilee, Northern and Piccadilly Underground lines; and delays to the sale of the old headquarters of the London Fire Brigade, 8 Albert Embankment.

Second, the timing of the draft Capital Spending Plan means there is the potential for 2009/10 spending forecasts to be inaccurate or spending on programmes to be adjusted before the end of the financial year. This has a knock-on effect on the 2010/11 capital programme and the funding available for it. Furthermore, recognising that forecasts for the end of the financial year are made using data from before the New Year, the Committee considers the quality of the information in some areas of the Capital Spending Plan to be insufficient for a meaningful consultation.

This response makes recommendations in relation to the remaining uncertainty and the quality of the information in the Mayor's draft Capital Spending Plan. The recommendations are designed to assist the Committee and others in monitoring the factors affecting Mayor's priorities for spending, as well as the functional bodies' ability to manage capital investment.

2. Uncertainties in capital programmes due to external factors

LDA – Olympic Park land costs

The LDA told the Committee it believed a settlement with the Government around the transfer of the Olympic Park land to the Olympic Park Legacy Company (OPLC) had nearly been agreed. It hoped to receive close to £500 million, the sum it had budgeted for. It did not expect to retain an interest in the future sale of the land. The LDA budget included a contingency of £9 million in 2010/11 which could be used if the settlement was less than £500 million.²

¹ The timing of the publication of the draft Capital Spending Plan is determined by the statutory deadline requiring a GLA Capital Spending Plan to be presented annually to the Secretary of State by 28 February.

² Peter Bishop, LDA, Budget and Performance Committee, 19 January 2010, transcript p. 6

However, at a specially arranged LDA Board meeting on 29 January, the Chief Executive explained that no deal had been reached in relation to the transfer of the land and associated debt. Indeed, the Board was asked to approve an extension of the transitional arrangements – including grant funding and the secondment of LDA staff to the OPLC – for a further six months from 1 February. The LDA’s Director of Corporate Finance commented that, “The outcome of the Treasury’s considerations on the funding of the planned land transfer will have a significant bearing on the budget of the Agency.”³

In advance of the conclusion of negotiations between the Mayor and government, it is unclear what the impact on the LDA’s budget plans will be – for example, in the event that the LDA receives less than the £500 million it hoped for, or if the profile of payments from government defers more funding to future years than has been assumed. A requirement for the LDA to cover more of the costs of the purchase of Olympic Park land (beyond the £9 million contingency fund for 2010/11) would require further borrowing, the costs of which could result in reductions to the LDA’s non-Olympic budgets. Further delays to a settlement would result in continuing uncertainty around the LDA’s finances.

TfL – PPP costs

The PPP Arbiter’s draft determination in relation to Tube Lines’ work between mid-2010 and 2017 indicates that it will cost £4.4 billion – £400 million more over the next 7½ years than TfL’s Business Plan allows for.⁴ A further announcement is anticipated on 4 March setting out the Arbiter’s final determination of costs, although it will not be until mid-April that the cost profile – how much extra it could cost TfL each year between 2010 and 2017 – will be known. TfL told us that the cost profile would be an important factor in the scale of the impact of any additional costs on its finances.⁵

If the Arbiter’s determination is that Tube Lines would be justified in claiming costs higher than TfL has allowed for, it is unclear how – and indeed whether – additional funding would be found. Ultimately, if TfL cannot afford to finance the additional costs set by the Arbiter, it would need to make further reductions to the scope of the programme.

Uncertainty around the Arbiter’s final determination of the costs to which Tube Lines will be entitled appears to have increased since a claim by Tube Lines that the costs to London Underground of its upgrade to the Victoria line are higher than had previously been thought. TfL refutes this claim, saying that Tube Lines is not comparing like with like;⁶ however, the Arbiter has asked for an explanation of the figures.⁷

LFEPA – sale of 8 Albert Embankment

We have previously described the difficulty LFEPA is having selling the old headquarters of the London Fire Brigade, 8 Albert Embankment.⁸ At our meeting on the draft Capital Spending Plan, LFEPA’s Head of Finance confirmed that capital spending plans in 2010/11 and beyond would be affected by the delay in the property’s sale. The timings of a programme of fire station upgrades, which was due to receive £10 million in both 2010/11 and 2011/12, have been affected.⁹

The draft Capital Spending Plan notes that LFEPA’s programme is dependent “to a large extent” on the value and timing of the sale of 8 Albert Embankment. It says,

³ *Olympic Park Legacy Company set up and transfer of functions*, paper to the LDA Board, 29 January 2010

⁴ PPP Arbiter, Press Notice 02/09, 17 December 2009

⁵ Richard Parry, TfL, Budget and Performance Committee, 19 January 2010, transcript p. 12

⁶ Richard Parry, TfL, Budget and Performance Committee, 19 January 2010, transcript pp. 22-23

⁷ See, for example, the Arbiter’s comments at the Assembly’s Transport Committee meeting on 2 Feb 2010

⁸ See the Committee’s *Pre-Budget Report 2009*, October 2009, p. 45

⁹ Sue Budden, LFEPA, Budget and Performance Committee, 19 January 2010, transcript pp. 34-36

Options for funding the forward programme including how any funding gap that arises from a delay in the expected receipt beyond 2010/11 might be addressed will be considered by LFEPA later in January 2010. The programme shown here is therefore subject to change prior to the final capital spending plan being approved.¹⁰

We welcome the inclusion in the draft Capital Spending Plan of this risk to spending. However, the document does not describe LFEPA's contingency plan and there is no indication of the nature or scale of potential implications. This makes it difficult to assess LFEPA's future capital spending proposals in the round.

Recommendation on uncertainty in the draft Capital Spending Plan

Recognising that external factors require adjustments to capital programmes throughout the year, and that they are reported to the boards of the functional bodies, we ask that each year the Capital Spending Plan should explain the level of uncertainty over budgets and highlight the areas most likely to change, as well as potential implications. This would assist the Committee in monitoring the effectiveness of the functional bodies' spending against capital plans.

Furthermore, this year, the Mayor should write to the Committee when some of the larger uncertainties in the capital programmes due to external factors have been clarified. He should write initially in May, following the PPP Arbiter's final determination of Tube Lines' costs to 2017, and as soon as negotiations in relation to the transfer of Olympic Park land and the sale of 8 Albert Embankment have been completed. He should explain the effects of any changes from the plans set out in the GLA Budget and Capital Spending Plan – both financial and in relation to service delivery.

3. The quality of information in the Capital Spending Plan

TfL – changes to plans

As we noted above, the timing of the Capital Spending Plan can result in the need for adjustments to published figures as the new financial year approaches. TfL's Chief Finance Officer explained that the figures presented in the draft Capital Spending Plan are subject to change as TfL gets further through its budget setting process. Indeed, it will not be until the TfL Board meeting towards the end of March that a final budget and capital plan is approved.¹¹

Last year the members of the Committee raised concerns over changes to TfL's revenue and capital budgets between the statutory consultation with the Assembly and the publication of plans approved by the Board in March. However, the changes were relatively well documented in TfL Board papers so the Committee was able to understand the implications of changes.

MPS – Directorate of Information

This is not the case, however, for the MPA; the Committee has limited confidence in the quality of information made available to it. It is of concern, for example, that the most recent published figures (reported in November 2009) forecast spending by the MPS Directorate of Information to be almost 30 per cent (£23 million) higher in 2009/10 than had been budgeted in last year's Capital Spending Plan.¹²

¹⁰ Mayor of London, *Draft Capital Spending Plan*, January 2010, para 4.2

¹¹ Stephen Critchley, TfL, Budget and Performance Committee, 19 January 2010, pp. 38 & 39

¹² Comparison between £79 million budgeted in the 2009/10 Capital Spending Plan (Section 2, Table 3) and £102 million in the most recent MPA forecasts for 2009/10 (Period 6 Monitoring Report, November 2009).

The MPS Director of Finance told the Committee that decisions to increase spending had been made by the Management Board based on assessments of the individual business cases. Additionally, we heard that much of the overspend in 2009/10 was due to underspends in 2008/9, rather than expanding project scopes or increasing prices. We would have expected that to have been accounted for by an increased budget in the 2009/10 Capital Spending Plan.¹³ The MPS acknowledged that it has “a history of under delivery” against its capital programme.¹⁴

There has apparently been recognition at the MPS that the management of capital spending needs to improve; a Capital Programme Steering Group has been set up.¹⁵ However, alongside improved spending controls, MPS financial projections need to be better. It should be possible for the figures presented in the draft Capital Spending Plan more accurately to forecast where there are likely to be underspends. That the 2009/10 Capital Spending Plan – published three quarters of the way through the last financial year – did not forecast such a significant underspend in 2008/9 calls into question the accuracy of this Plan’s forecasts for 2009/10.

LDA – accuracy of figures

In the wake of the financial mismanagement at the LDA which we have described elsewhere,¹⁶ its Deputy Chief Executive gave assurances to the Committee that improvements were being made and that confidence in its figures would “continue to improve”.¹⁷ However, the LDA section in the draft Capital Spending Plan does not include forecast capital spending outturns for 2009/10, and the quoted 2009/10 programme budgets were produced in September 2009. Without a comparison between the budgets agreed at the beginning of the financial year (March 2009) and up-to-date forecasts of 2009/10 outturns, it is difficult to assess the LDA’s ability to produce accurate budgets and stick to them.

Recommendation on the quality of information

For each functional body, the final 2010/11 Capital Spending Plan should include the budget for 2009/10, as set out in last year’s Capital Spending Plan, any revisions to original budget and the forecast outturn for 2009/10 (clearly stating the point at which the published forecasts were made). Explanations for revisions to the original budget and variations between revised budgets and forecast outturns would allow an assessment of the success to date of the functional bodies in managing the delivery of capital investment.

For each functional body, the final 2010/11 Capital Spending Plan should also include information on how much of the 2010/11 capital budgets for each functional body are for programmes that have been delayed with spending carried forward from 2009/10.

The Committee requests that the above additional information about capital spending in the previous year and the year to come should be included in the draft Capital Spending Plan as a matter of course in the future.

¹³ Paul James, MPS, Budget and Performance Committee, 19 January 2010

¹⁴ Kim Harding, MPS, Budget and Performance Committee, 19 January 2010, transcript p. 32

¹⁵ Paul James, MPS, Budget and Performance Committee, 19 January 2010

¹⁶ See, for example, the Committee’s *Response to the Mayor’s consultation draft budget 2010/11*, January 2010, pp. 31 & 32

¹⁷ Peter Bishop, LDA, Budget and Performance Committee, 19 January 2010, transcript p. 44