

Budget and Performance Committee response to Mayor's consultation draft budget for 2012-13

Introduction

On behalf of the London Assembly, this is the Budget and Performance Committee's response to the 2012/13 GLA Group budget proposals, as published by the Mayor just before Christmas.¹ It builds and draws on the Committee's previous work on the 2012/13 budget, including its Pre-Budget Report² and its response to core GLA initial budget proposals.³ It sets out the Committee's view of the key outstanding issues and its purpose is to inform the next stages of the budget-setting process.⁴

In responding to the draft budget we note that the situation has moved on since its publication and expect some of the uncertainty around funding and spending plans to be resolved in the next iteration of the document. The Mayor's expectation of extra funding for policing (as discussed below) means the budget that will be finally proposed will be considerably different from the one to which we are responding. This will not only affect the policing figures but could have consequences for the other parts of the Group and potentially our views on their spending plans.

Changes in the GLA budget

Regardless of the final government funding settlement, it is clear that there will be profound changes in the way the core GLA will operate in the future. Its capital programme is set to increase from a forecast £7 million at the beginning of 2011/12 to around £810 million in 2012/13, mainly as a result of the devolution of London Homes and Communities Agency (HCA) and London Development Agency (LDA) budgets.⁵ The GLA has also been given most of the assets of the LDA, HCA and Thames Gateway Development Corporation with a total undeveloped value of over £375 million,⁶ in addition to a greater share of the receipts from the eventual sale of the Olympic Park. In part these will be required to meet additional Olympic Park land liabilities but it is clear that capital receipts will become a much bigger part of the GLA's future funding package.⁷

On the other hand, revenue grant funding is set to fall and debt servicing costs will increase. The GLA grant is expected to reduce by 25 per cent over the four years to 2014/15⁸ and no additional grant funding is being provided for former LDA activities beyond limited contractual commitments in 2012/13 and 2013/14.⁹

¹ Mayor of London, *Budget Proposals and Precepts 2012-13 – Consultation Document*, 21 Dec 11 ("draft budget")

² Budget and Performance Committee, *Pre-Budget Report 2011*, October 2011

³ Budget and Performance Committee, *Response to the initial core GLA budget proposals*, December 2011

⁴ At its meeting on 25 January, the Assembly will put questions to the Mayor on the Draft Consolidated Budget and debate the proposals. At its meeting on 9 February, the Assembly will put questions to the Mayor on the Final Draft Consolidated Budget and debate the proposals.

⁵ Draft budget, para 2.6

⁶ This total does not include the Greenwich Peninsula. The book values of the other assets are: LDA assets - £175 million; HCA land assets - £80 million; HCA non-land assets - £100 million; Thames Gateway land - £23 million.

⁷ Over the next three years, the sale of assets is expected to result in £124 million of capital receipts (draft budget, table beneath para 10.7, p. 62).

⁸ The GLA general grant is expected to fall from £48.1 million in 2011/12 to £36.1 million in 2014/15 (letter to Committee from GLA Director of Resources, 30 June 2011).

⁹ The Government is providing funding for LDA contractual commitments worth £28 million and £12 million in 2012/13 and 2013/14 respectively.

As a result of the changes to GLA funding arrangements and spending plans, the Committee has paid particular attention this year to the City Hall aspects of the budget. This response reflects that but also includes sections on policing, shared services and the costs of the new Mayor's Office for Policing and Crime (MOPC) – other areas where the Committee has outstanding questions to raise.

Olympic land debt

Negotiations with the Government have changed the way the debt associated with purchasing and remediating the Olympic Park land will be repaid. The GLA will now get first call on receipts from the eventual sale of the Olympic Park development, rather than specific grant funding as had been the expectation. The Mayor's Chief of Staff told us that this change will require the Olympic Park Legacy Company (OPLC) to review its plans for Park.¹⁰

On 1 April 2012, the Mayor is proposing that the OPLC will become a mayoral development corporation (MDC)¹¹. We have previously identified a risk that bringing both the legacy and the land debt under the sole control of the Mayor could result in a tension between financial and regeneration objectives.¹² The Mayor assured the Committee that he would not take short term, financially driven decisions that would not be "in the long term interests of that part of London"¹³ and the Assembly will examine the revised plans for the site with this in mind when they are published. We also look forward to examining any working agreement between the GLA and the MDC as it is set up.

Policing

The biggest unresolved issue in the budget proposals as they stand is over funding for the police. In the draft budget to which the Committee has been invited to respond, there is a budget gap of £86 million in 2012/13 but this now looks likely to be closed with additional funding from the Government. The Mayor is expecting the Government to provide additional funding for policing following ongoing negotiations which are expected to conclude shortly. When asked how far further government funding would go to cover the £86 million budget gap, the Mayor said "I am confident that it will go the whole way".¹⁴

It is less clear whether the Government will provide enough funding to cover the funding gaps in years two and three of the policing budget. There is currently a budget gap of £145 million in 2013/14 and a gap of £226 million in 2014/15. While it seems unlikely that the Government will meet these needs in full, the Mayor suggested that he expected sufficient additional funding to be provided to maintain officer numbers at the level planned until 2015.¹⁵

Maintaining the current number of police officers in the long term will be difficult even if additional funding is provided and could risk undesirable movements of officers into support roles. According to the Metropolitan Police Service (MPS), keeping an officer strength of 31,957 until 2015 would require "a fundamental change in the police and business operating

¹⁰ Sir Edward Lister speaking at the Budget and Performance Committee on 5 January 2012

¹¹ The creation of the MDC is dependant on confirmation by the Assembly.

¹² "There are clear benefits to the OPLC of having ownership of the Park land without the debt associated with its purchase. It will give the OPLC more time and freedom to develop the Park with long-term legacy in mind and free it from the demands of having to meet a strict debt repayment schedule." (Budget and Performance Committee, *Finances of the Olympic legacy*, October 2010)

¹³ Boris Johnson speaking to the Budget and Performance Committee at its meeting on 10 January 2012

¹⁴ Boris Johnson speaking to the Budget and Performance Committee at its meeting on 10 January 2012

¹⁵ Boris Johnson, speaking to the Budget and Performance Committee at its meeting on 10 January 2012, said, "in the CSR period it [the settlement] will enable us to protract the high numbers [of officers] until 2015".

model for the Service in terms of the mix between Police Officers, Police Staff and PCSOs".¹⁶ The MPS Director of Resources said this would make it more likely that officers would be filling back office roles currently carried out by civilian staff.¹⁷ This would run counter to this Committee's previous conclusions that increasing civilian staff in support roles should bring about efficiencies and that officers should usually only be used in support roles where this was more cost-effective than employing civilians.¹⁸

The Mayor told the Committee that he did not think that this was a fair reflection of the situation. He said, "there are no plans that I am aware of to take officers off front-line duties and reallocate them to civilian tasks".¹⁹ He confirmed that he would listen to the Police Commissioner if he suggested that the workforce balance was wrong and that the MPS needed more civilian staff.

We welcome additional government funding for policing the capital but continue to highlight the importance of the workforce mix at the MPS. While we welcome the Mayor's desire to maintain the level of officer cover this must not happen at the expense of the force's overall policing capacity. The force's effectiveness is determined by the activity of the whole policing workforce and not just its officers. Final workforce decisions should be made on the basis of making the best possible use of available resources and maximising the force's operational capacity.

GLA

The GLA will become increasingly short of revenue funding following the recent government funding settlement. In the absence of ongoing LDA funding following the transfer of the LDA into the GLA, the bulk of continuing GLA and former LDA revenue programmes, and the costs of servicing the Olympic land debt beyond 2014/15,²⁰ will need to be funded from the reducing GLA revenue grant. The Mayor talked about the possibility of further borrowing, capital/revenue swaps and the GLA retaining business rates income to release additional revenue funding but the budget as it stands does not include any such measures in the next three years.²¹

Some of this additional income will have to be "earned" and will depend on the ability of the GLA to stimulate growth in the London economy and maximise the value of the GLA's assets. This will make new demands on the workforce. The Mayor's Chief of Staff told us that the GLA is now a "very big property developer in [its] own right" and would need to boost its resources "quite considerably".²² The Mayor highlighted that the GLA would need a different skill set to maximise the value of its new assets but was confident that the 2012/13 budget could accommodate any necessary staffing changes. The Assembly will monitor City Hall staffing proposals over the coming year to see how they meet the new requirements.

When he spoke to us the Mayor was confident in his ability to deliver his priorities but the limited grant funding will make this difficult in the short term. Current plans show that

¹⁶ MPA Committee paper, *Policing London Business Plan 2012-15*, 24 November 2011, para 18

¹⁷ The MPS Director of Resources speaking at the MPA Finance and Resources Committee, 17 Nov 2011

¹⁸ Budget and Performance Committee, *Policing in London*, June 2011, paras 4.20 and 5.2. The report also notes that there may be occasions when officers are required to carry out back office roles where they are an essential element of the force's resilience capacity.

¹⁹ Boris Johnson speaking to the Budget and Performance Committee at its meeting on 10 January 2012

²⁰ The Government made revenue funding available to cover the costs of servicing the Olympic debt until 2014/15 as part of the LDA's final settlement. A further £12 million of funding has since been provided by the Government to cover Olympic debt interest costs in 2014/15.

²¹ Boris Johnson speaking to the Budget and Performance Committee at its meeting on 10 January 2012

²² Sir Edward Lister speaking to the Budget and Performance Committee at its meeting on 5 January 2012

revenue spending on skills and employment, youth, business support and environment programmes is set to fall from £20.8 million in 2011/12 to £7.1 million in 2012/13 and eventually to £2.3 million in 2014/15.²³

The Mayor apparently intends to carry forward programmes beyond those laid out in the draft budget. For example, although the Mayor told us he intended to continue the GLA's key environment programmes,²⁴ current plans do not include any future revenue funding for RE:NEW and revenue funding for RE:FIT expires after 2013/14.²⁵ The Mayor said,

We will do our best to make core GLA funding available. If that is not possible we will either find other resources outside the core GLA or we will go to debt [...] and we will secure the funding that way. [...]

It may be that there will be some of the housing budgets that we have secured which are very substantial. It may well be that it would be appropriate to look at them as the potential source for the retrofitting programme.²⁶

There are potentially substantial unallocated resources in the draft budget and it may be possible to use them to support these programmes. The £27.7 million precept freeze reward grant is already accounted for in the budget to support GLA programmes in 2013/14 (it will go into reserves during 2012/13). There remains, however, a GLA contingency in 2012/13 of around £12 million and any council tax collection surplus (the size of this sum should be known later in January²⁷). Additionally, DCLG intends to provide a cash advance of £41 million "to improve the GLA's cash flow" (although this is one-off funding brought forward from future years).²⁸ The GLA core grant will be £40.7 million in 2012/13 so these pots could be significant in the context of the GLA revenue budget.²⁹

Intentions for the use of unallocated resources in the GLA's budget should be clarified in the forthcoming Draft Consolidated Budget. These unallocated resources include the DCLG cash advance, a proportion of the 2012/13 GLA contingency and any precept collection surplus. As things stand, it is difficult for the Committee to assess the budget proposals given that the Mayor's plans appear to have moved on since the consultation draft budget was published.

As far as possible, the Mayor should be looking to increase the funding available within the GLA to spend on its revenue programmes. While we understand there will be other calls on resources, including the costs of servicing GLA debt, the focus should be on the youth, skills and employment, business support and environment programmes which existing spending plans show are being particularly badly affected by budget reductions. Specifically on the flagship environment programmes, the Mayor needs to demonstrate how he will fulfil the commitments he made to us given current figures show no ongoing revenue funding for them.

²³ Figures provided to the Committee by the GLA Finance team on 13 January 2012

<http://www.london.gov.uk/publication/response-mayors-draft-201213-budget>

²⁴ Speaking about environment programmes, the Mayor said, "there are important objectives on the environment that Londoners want us to fulfil and we are going to" and specifically on RE:NEW and RE:FIT he said, "I am absolutely confident that we will be able to deliver those [RE:NEW and RE:FIT] as well" (Budget and Performance Committee meeting, 10 January 2012).

²⁵ GLA programmes spending figures provided to the Committee by the GLA finance team on 10 Jan 2012

²⁶ Budget and Performance Committee meeting, 10 January 2012

²⁷ As an indication, the GLA's share of the London collection fund surplus was £9.6 million in 2010/11 and £5.3 million in 2009/10.

²⁸ Draft budget, para 2.5

²⁹ Draft budget, table 4, p. 76

Recommendation 1

The next draft of the budget should show the expected programme expenditure over the next three years for all of the GLA's areas of responsibility including skills and employment; youth and volunteering; business support; sport; the Olympic and Paralympic Games; regeneration and climate change and the environment. If the intention is to use further borrowing, capital/revenue swaps and/or retained business rates income to release additional revenue funding in the next three years, this should also be clearly presented.

Shared services

For a number of years there has been a view that the GLA Group could achieve substantial savings from greater collaboration between the functional bodies. To that end, the Mayor appointed a Budgets and Performance Advisor to drive out savings through collaborative procurement and the sharing of support services. The Mayor's advisor proposed that the GLA Group could expect to save £150 million in 2012/13 and £300 million in 2013/14. The draft budget highlights that on current plans these targets will be missed by £42 million in 2012/13 and £173 million in 2013/14.

The Committee has previously raised concerns that the targets and timeline for savings look unrealistic. The current targets were first mentioned in July 2010, when the Committee was told that the shared services programme ought to yield savings of around 20 per cent of joint procurement spend across the GLA over two years. This would be achieved through "engaging the functional bodies to work more closely together" and collaborative procurement.³⁰ At the time many of the programme's work streams were yet to be scoped so there was little empirical basis for the targets that were set.

The readiness of the two largest functional bodies to engage in sharing services has also raised doubts over how realistic the current targets are. The MPS and Transport for London (TfL) have both indicated that they are unable to share services with other organisations until they have completed their own internal reorganisations. In November 2011, the MPS said that for some support functions it could be 18-24 months before they could consider sharing services.³¹ TfL has been working on Project Horizon - a project to amalgamate its own divisional back office functions. It has indicated that rather than looking to share services with external bodies it has been looking to first take out inefficiencies in its own organisation.

Many of the planned savings included in the draft budget under the shared services heading do not meet the original aims of the project. The initial aspiration was to achieve savings from greater collaborative working between the functional bodies; the Committee recently heard that savings from collaborations with bodies outside the GLA are now to be included.³² The schedule of planned savings in the draft budget also includes savings deriving from functional bodies' own internal reorganisations.³³ That most of the savings presented under the shared services heading would likely have been delivered anyway by the functional bodies raises questions around the value the shared services targets are adding. Pursuing the targets also

³⁰ Nicholas Griffin told the Committee that there was £2.2 billion of joint procurement spend across the GLA and that he expected that 20 per cent savings could be achieved on these costs – £440 million (Budget and Performance Committee, 13 July 2010, transcript, p. 10).

³¹ Anne McMeel (Director of Resources, MPS) told the Committee on 1 November 2012 used the example of Finance and Resources to show that the MPS would not be ready to share services with another constabulary or TfL for 18 months to 2 years (transcript, p. 17).

³² Nicholas Griffin quoted examples of collaborations with bodies outside the GLA which are included as well as those within the GLA Group (Budget and Performance Committee, 5 January 2012, transcript, p. 18).

³³ The schedule of savings from shared services and collaborative procurement in the Mayor's budget includes £36 million from TfL in 2012/13 from Project Horizon, which is an internal reorganisation of TfL's support functions (draft budget, Appendix G, p. 97).

appears to be resulting in time and resources being spent collating information that does little to help us assess the progress of the programme.

Despite doubts about the value of the savings targets, the shared services programme does appear to have progressed the joint working agenda. A high level working group has been set up to look for opportunities to reduce costs in different service areas. Work is underway to develop a contracts database and look at the timings of contracts across the GLA as part of attempts to procure more collaboratively in future. There are examples of contract information being shared across the group to help drive down costs where bodies use the same supplier.³⁴

The Committee welcomes efficiency savings wherever they can be found, including through greater collaboration or the functional bodies' internal restructuring programmes. Each of the organisations within the GLA Group faces challenging grant reductions over the next few years and is ultimately responsible for finding savings to work within the financial envelope set by the Mayor. Notwithstanding that, there are clear opportunities for efficiencies across the Group which functional bodies will not be able to realise individually. This is where the Mayor has a role to play and where the shared services programme should focus.

We note signs of improved joint working within the GLA Group, particularly on procurement, but the existing shared services targets are no longer specific to this aim. Savings counting towards the targets now include efficiencies from internal reorganisations and collaboration with organisations outside the Group, beyond the Mayor's control. Even so, the targets still appear unrealistic and they have become meaningless as the definition of shared services savings has been expanded and inconsistently applied.

Recommendation 2

The Committee recommends that the current targets in the shared services programme should be replaced with a more meaningful set of targets. These targets should be based on a tighter definition of 'shared services' for the purpose of this programme and a better understanding of how the programme fits with the functional bodies' broader savings objectives.

We consider there remains the potential for greater efficiency and strategic benefits from working more collaboratively within the GLA Group. New targets should only include savings from collaboration between bodies that fall under the Mayor's control. The programme should also be better integrated with other plans to improve efficiency within GLA Group bodies.

The shared services working group should report progress on a six-monthly basis against a more realistic work plan setting out how the GLA Group intends to improve internal collaborative working over the next five years.

Mayor's Office for Policing and Crime (MOPC)

Despite a request by the Mayor for the MOPC to find immediate efficiency savings, the budgeted cost of running the MOPC appears to be no less than that of the MPA. The Mayor wrote to the Deputy Mayor for Policing and Crime asking for "streamlined staffing arrangements" to be put in place and "for our commonly agreed agenda on GLA Group

³⁴ Anne McMeel (Director of Resources, MPS) speaking to the Committee at its meeting on 5 January 2012

shared services to be taken forward immediately".³⁵ The MPS's budget is set to reduce by eight per cent over the next three years and we expected a similar level of savings to be found at the MOPC. On current plans, however, funding to run the MOPC is no lower than it was for the MPA in 2011/12 (£12.5 million³⁶) and its budget is not set to reduce over the next three years.³⁷

Furthermore, MOPC funding has not been reduced to reflect activities it will no longer undertake. For example, with the MPA's scrutiny function discontinuing and the removal of the requirements to remunerate Members and service committees, there has been an expectation that running costs of the MOPC would be less than those of the MPA. This does not appear to be reflected in the budget.

When we spoke to him, the Mayor noted the Committee's observations about the MOPC budget and agreed to look at it again before the 2012/13 budget is finalised.³⁸

Recommendation 3

The Committee would expect immediate savings to come from ceasing MPA activities and efficiencies to be found in setting up the MOPC, such as through shared services. Future savings requirements should also be set for the MOPC similar to those required by the other GLA Group organisations over the next three years.

We welcome the Mayor's commitment to review the MOPC allocation of funding and recommend that he sets out in the next version of the budget the efficiency savings he expects from the MOPC.

Conclusion

As usual at this time of year, budget plans are moving on quickly and in this response we have set out our view of the key issues to be addressed as the next version of the budget is prepared. Negotiations are still ongoing with the Government but there are significant areas where the Mayor should now be able to provide detail on how he expects to respond to the changes in the funding arrangements and new responsibilities of the GLA Group.

The Assembly will look again at the updated budget proposals when it considers the Draft Consolidated Budget in February and votes on whether to approve it or amend it. We hope our response provides a useful starting point for that debate.

³⁵ Letter from the Mayor to the Deputy Mayor for Policing, 6 January 2012

<http://www.london.gov.uk/publication/response-mayors-draft-201213-budget>

³⁶ Letter to the Committee from the MPA Treasurer providing a breakdown of the increase in MOPC funding between 2011/12 and 2012/13, 5 January 2012

<http://www.london.gov.uk/publication/response-mayors-draft-201213-budget>

³⁷ Draft budget, table under para 4.18, p. 29

³⁸ Boris Johnson speaking to the Budget and Performance Committee at its meeting on 10 January 2012