

# **The Mayor's role in economic development**

October 2011





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# Economy, Culture and Sport Committee Members

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Len Duvall (Deputy Chair)	Labour
Tony Arbour	Conservative
John Biggs	Labour
Andrew Boff	Conservative
Victoria Borwick	Conservative

At its meeting on 24 March 2011, the Committee agreed to undertake an investigation into the Mayor's role in economic development with the following terms of reference:

- To examine the proposed structures and funding for economic development post-LDA, (specifically: funding and delivering regeneration projects; funding and delivering skills; promoting London; and supporting London businesses); and
- To examine the implications of changes in the Mayor's powers, resources and responsibilities for the Mayor's future role in economic development in the capital.

The Committee welcomes feedback on its report. For further information, contact Tim Steer c/o City Hall, The Queen's Walk, London SE1 2AA; email [tim.steer@london.gov.uk](mailto:tim.steer@london.gov.uk). For press inquiries contact Dana Rothenberg on 020 7983 4603 or [dana.rothenberg@london.gov.uk](mailto:dana.rothenberg@london.gov.uk).

# Contents

<b>Chair's foreword</b>	<b>7</b>
<b>Executive Summary</b>	<b>9</b>
<b>Introduction</b>	<b>11</b>
<b>Changes to the Mayor's powers</b>	<b>13</b>
<b>Funding for economic development in London</b>	<b>19</b>
<b>The role of the Mayor in providing a strategic lead</b>	<b>25</b>
<b>Conclusion</b>	<b>28</b>
<b>Appendix 1 GLA/LDA budgets for economic development programmes</b>	<b>29</b>
<b>Appendix 2 Recommendations</b>	<b>31</b>
<b>Appendix 3 Orders and translations</b>	<b>32</b>

## Chair's foreword

London's economy, like the rest of the UK's, faces challenging times. Arguably it is more important now than at any point in the brief history of the GLA for the Mayor to deliver successfully on his duty to promote economic development in the capital. New businesses, the growth of existing ones and new jobs are needed for London's economy to recover. And usually when London's economy is growing, the UK's grows too.

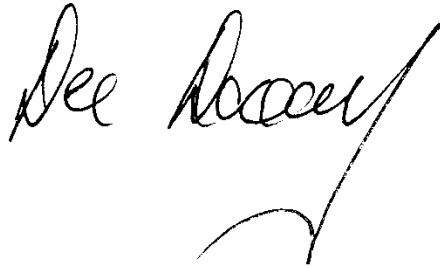


The Mayor set out his vision for London's economy in May 2010 with the final publication of his economic development strategy. But much has changed since then. As we show in this report, central government funding for economic development programmes previously run by the London Development Agency (LDA) is largely disappearing with the LDA itself. Powers the Mayor had to influence spending on skills and employment programmes have gone. Business support will be centralised with no government funding available for London-based projects to help new businesses to set up and grow.

It is not all doom and gloom though. The Mayor will shortly have direct control over projects previously run by the LDA and is gaining responsibility for the Homes and Communities Agency in London. This gives him the potential to use existing resources more effectively. He has sought other forms of funding: the GLA will be borrowing around £110 million over the next four years for regeneration projects; the government has made available £20 million for Tottenham and Croydon to help rebuild after the riots; and savings in other parts of the GLA group will be used to fund regeneration. In the longer-term, new mechanisms to retain business rates locally offer the potential of a new source of funding for Mayoral priorities.

The questions we ask in this report are how is the Mayor going to respond to the recent changes to funding and his responsibilities; and what does this mean for others trying to promote growth in London's economy, such as business groups, London boroughs and sub-regional partnerships. The May 2010 Economic Development Strategy promised an implementation plan "shortly". We are calling for that plan to be published as soon as possible and for it to set out new

detailed proposals for continuing to deliver the jobs, skills and regeneration many parts of the capital so desperately need.

A handwritten signature in black ink, appearing to read 'Dee Doocey', with a large, stylized flourish extending from the end of the name.

**Dee Doocey AM**  
**Chair of the Economy, Culture and Sport Committee**



# Executive Summary

This report examines the recent changes to the Mayor's powers and funding to promote economic development in the capital. In doing so, we have sought to identify what these changes might mean for the role that the Mayor can play and how he can provide the strategic lead which others can follow. Our main findings are:

- While the Mayor has gained new powers through his direct control of budgets for housing and regeneration, important areas of economic development policy have been centralised. We share the concerns of the business groups and local government representatives we spoke to about the potential consequences of the removal of some of the Mayor's powers over business support and skills.
- The changes to the Mayor's powers need to be seen in the context of a reduction in the level of grant funding available from government for economic development. The Comprehensive Spending Review settlement for GLA/LDA economic development programmes is set to reduce funding from £192 million in 2009/10 to £25 million in 2012/13.
- Additional business rate income generated by the Enterprise Zone in Newham will provide a source of funding for the London Local Enterprise Partnership (LEP) and therefore the Mayor. Legislation to enable Tax Increment Financing (TIF) offers the potential of another new source of income for the Mayor to promote economic development. Neither source of funding is likely to be available until 2013 at the earliest as it needs primary legislation. In the meantime, GLA borrowing of £110 million over four years is providing a new source of funds for Mayoral regeneration priorities.
- Business rate revenue generated by an Enterprise Zone will be able to be used to fund Mayoral priorities through the LEP. The scale of the London LEP means there is potential for future conflict between the Mayor and borough representatives of areas from where funds have been generated.
- As a result of the changes to the Mayor's powers and funding, we conclude that the overall vision in the Mayor's current Economic Development Strategy needs to be tailored to reflect these changing circumstances. The Mayor should publish a detailed

implementation plan which sets out what he sees as his role in promoting economic development and what he expects of others.

# Introduction

The Mayor has a statutory responsibility to promote London's economic development.<sup>1</sup> In his Economic Development Strategy, which sets out how he proposes to fulfil this responsibility, he says he will "encourage the conditions and business environment in which London's powerful economy can thrive". The Strategy sets out his approach: to allow effective markets to flourish, remove barriers to productivity and correct market failures; to work with others to "address the issue of worklessness"; and to "lead the transformation of London into a low carbon capital".<sup>2</sup>

However, much has changed since the final version of the strategy was published in May 2010: the funds available to the Mayor are reducing; his economic development delivery agency is being folded into the GLA; and he is being given more direct responsibility in some areas and less in others.

The Mayor is committed to "work[ing] in partnership with organisations across London to turn [the] strategy into action". There is a range of bodies involved in developing the economy of London: the Mayor, local and central government, businesses and sub-regional partnerships. For the Mayor to provide the strategic vision and objectives within which these organisations can operate, and to ensure that resources are being channelled efficiently, each needs to understand the Mayor's strategic role and understand their potential role in supporting his objectives. During our investigation we sought the views of these organisations on the implications of the developments since May 2010 and put the issues they raised to the Mayor's representatives. The aim of this report is to assess how the Mayor is responding to the changes to his role in promoting economic development and how he is providing a strategic overview within which others can operate to the best effect.

Since we started our investigation, riots and wider disturbances took place across London and the Mayor has responded with new funds to

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<sup>1</sup> For the purposes of this inquiry, we defined the following LDA programmes as economic development: regeneration, skills and employment, promotion and business support. See the Committee's scoping paper agreed at its meeting in March (<http://www.london.gov.uk/moderngov/mgConvert2PDF.aspx?ID=3089>).

<sup>2</sup> Paras A.2 and A.3

help regenerate over the longer-term some of the areas affected. The strategic allocation of these funds and how they are used will determine how effective they are in regenerating parts of London and are therefore highly relevant to the issues we raise in this report. We intend to examine the allocation of regeneration funding in more detail later in the year when we follow up the findings and recommendations of this report with the Mayor and his representatives.

The remainder of this report looks at changes to the Mayor's responsibilities for economic development; the funds available to him to meet these responsibilities now and in the longer term; and, finally, what more the Mayor can do to provide strategic leadership in this important area of public policy.

# Changes to the Mayor's powers

Legislation introduced since May 2010 has changed, or will change, the functions and powers of the Mayor. This is particularly the case for economic development. The Mayor made the case to central government for increased powers to be devolved to London and was supported in much of this by the Assembly and London Councils. In some areas, further powers will be devolved to the Mayor and pre-existing powers will come more directly under his control; in other policy areas, central government will take responsibilities away from London and centralise support for economic development.

## Areas of reducing Mayoral influence

Some of the mechanisms the Mayor previously had to promote economic development are being removed as a result of changes nationally. Specifically, the Government is centralising some of the business support and skills and employment programmes previously delivered regionally. Expenditure funded by central government under the LDA's Investment Strategy, which includes indicative budgets to be managed by the GLA post 2012, proposes reductions in these areas of nearly 100 per cent and 83 per cent respectively between 2009/10 and 2012/13.<sup>3</sup> Further funding by the Mayor for these programmes would need to be found from the GLA's other income sources.

On business support, Business Link, the business advice service previously run at a regional level (by the LDA in London), will close in November 2011 and be replaced by a nationally run web-based service. The Government has provided £3.5 million for Business Link in London for 2011/12. This made up just over 60 per cent of business support projects funded by the GLA/LDA. Other projects funded until the end of 2011/12, and for which there is no continuing funding source, included £1.3 million for projects within the Solutions for Business programme and £0.3 million for the British Library Business and IP Business Centre.<sup>4</sup>

In his submission to the Government's Comprehensive Spending Review, the Mayor made the case for continued innovation and specialist business support to be delivered at the Mayoral level. He

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<sup>3</sup> Skills and employment spending by the GLA group is reducing from £41 million in 2009/10 to £7 million in 2012/13. Business support spending by the GLA is reducing from £57 million in 2009/10 to zero in 2012/13.

<sup>4</sup> Answer to MQ 2174/2011 to Tony Arbour AM, 13 July 2011

referred specifically to the British Library Business and IP Centre and ‘business bootcamps’ where there is market failure.<sup>5</sup> The Government grant from 2012/13 for business support is £0.1 million.<sup>6</sup>

For skills funding, the Government will operate a demand-led approach and there will be no separate London funding stream. The London Skills and Employment Board (LSEB), chaired by the Mayor, will lose its responsibility to produce a London strategy. The Mayor had argued in June 2010 for the power to approve the allocation of the adult skills budget in London.<sup>7</sup> He had also proposed that DWP and Jobcentre Plus expenditure in London should have regard to the London strategy.

Although the Mayor’s powers in relation to skills and employment will reduce, he will continue to oversee the delivery of some programmes. The LDA is planning to spend around £5.9 million on skills and employment programmes in 2011/12.<sup>8</sup> The GLA has been allocated funding of £2 million through the LDA’s final settlement for skills and employment programmes in 2011/12.<sup>9</sup> This funding is expected to be used to continue some of the LDA programmes including apprenticeships, work placements and brokerage programmes.

Business groups and boroughs expressed to the Committee concerns about the increase in the centralisation of budgets for business support and skills and employment programmes. There was a general consensus that more powers and funding should be devolved to London rather than removed. For example, Westminster Council said that the Government proposals risk “creating an additional and unnecessary level of bureaucracy” and that this may result in “duplication and inefficient use of funds, remove accountability and

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<sup>5</sup> Appendix 2 to the Mayor of London’s Spending Review Submission to HM Government, August 2010

<sup>6</sup> Appendix 7B, LDA Board Written Resolution, Investment Strategy and Business Planning, 25 March 2011

<sup>7</sup> The Mayor of London’s Proposals for Devolution, June 2010

<sup>8</sup> Appendix 7B, LDA Board Written Resolution, Investment Strategy and Business Planning, 25 March 2011

<sup>9</sup> Ibid

influence from the Mayor and council leaders that best understand local needs, and fail to provide the right framework for growth”.<sup>10</sup>

On skills, the Committee had previously concluded that the Mayor and the LSEB had the right strategy to tackle the unique challenges of London’s labour market. Our work highlighted the capital’s persistently high levels of unemployment and the demand for highly skilled workers.<sup>11</sup> This chimes with the Mayor’s submission to government on economic development before the CSR, in which he said, “London has huge social challenges which I am therefore determined to tackle through my economic development programmes – in particular helping people become more employable and skilled to the levels that will meet the demands of our complex, knowledge driven economy.”<sup>12</sup>

Others argued that the Mayor should continue to make the case to government about the specific skills needs in the capital, despite the loss of the statutory role of the LSEB, and that this could be a role usefully carried out by the London-wide LEP.<sup>13</sup> The joint Chair of the LSEB is Harvey McGrath who was previously vice-chair of the LSEB. Sir Peter Rogers also told the Committee that the London LEP was a “great place” from which to try to influence the Government on skills.<sup>14</sup>

Similarly, in relation to business support there are particular issues in the capital – not least because London has relatively high start up rates and business failure rates compared with the rest of the UK. We found in 2009 that some of the more effective services were those that were specifically tailored to London.<sup>15</sup> When they spoke to us earlier this year, business groups said there was a lack of detail about what would replace Business Link and suggested there should be a future role for the GLA in facilitating and promoting future business support services in London.<sup>16</sup> The Mayor’s Adviser for Regeneration,

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<sup>10</sup> Written submission to the Committee from Westminster City Council

<sup>11</sup> Time to Skill report, November 2009

<sup>12</sup> Paras 7.1 and 7.3, August 2010

<sup>13</sup> Chief Executive of the Thames Gateway Partnership speaking to the Economy, Culture and Sport Committee, 21 June 2011

<sup>14</sup> Speaking to the Economy, Culture and Sport Committee, 21 June 2011

<sup>15</sup> Credit Crunched? report, June 2009

<sup>16</sup> Note of informal meeting with business groups, 12 April 2011, pp. 1 & 2

Growth and Enterprise expressed a degree of frustration at the centralisation of business support funding at our Committee meeting in June:

Contrary to localism business support has been nationalised, in effect. [...] We made a strong argument that it should be made more relevant locally by looking at the life cycle of a business and offering appropriate intervention, rather than just providing a standard service, which it appeared to adopt, and make it much more relevant locally. That was not accepted and it has become a national product.<sup>17</sup>

**As our previous work has demonstrated, London's particular economic circumstances mean that the best approaches to economic development are often different to those in other parts of the country. We will support the Mayor in making the case for regional funding for skills and employment and specialist business support in the run up to the next CSR.**

#### **Recommendation 1**

We recommend that in his response to this report, by January 2012, the Mayor set out his strategy for seeking to influence central government to make the case for London ahead of the next Comprehensive Spending Review. This should include his policy on securing powers and funding for skills and specialist business support in the capital.

#### **Areas of increasing Mayoral influence**

The Mayor will have new powers to promote economic development. For example, in the 2011 Budget the Government announced proposals for 21 enterprise zones and confirmed the first 11 zones, including one in Newham. Enterprise zones offer incentives such as simpler planning rules and tax breaks for companies. As Co-Chair of the proposed London Local Enterprise Partnership, the Mayor will have control over revenue from additional business rates resulting from businesses locating within enterprise zones. The Mayor is also being given the power to create Mayoral Development Corporations

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<sup>17</sup> Speaking to the Economy, Culture and Sport Committee, 21 June 2011



(MDCs) and has announced one covering the Olympic Park, as well as mooted the possibility of another in Haringey.

We heard that enterprise zones and MDCs are potentially powerful tools. Business groups, when we met them, were generally supportive of the possibility of local planning and business rate policies designed to stimulate growth.<sup>18</sup> The Mayor's adviser told us that MDCs could play a role in accelerating development because they simplified and speeded up the planning process. The Assembly recently recognised the role the Olympic Park MDC could play in stimulating and accelerating development by giving certainty to potential investors.

The Mayor is also gaining more direct control of economic development and housing spending. In his proposals for devolution after the May 2010 General Election, the Mayor's "key asks [were] that the London region of the Homes and Communities Agency (HCA) be devolved to the GLA, and that the GLA group should be reorganised so as to make it as streamlined and fit for purpose as possible, including folding in the functions of the London Development Agency (LDA) into the GLA". The Localism Bill currently going through parliament would give effect to these proposals. The Mayor proposes to establish a new housing and regeneration body as an executive arm of the GLA.

As regeneration projects are longer-term and the LDA settlement was based on contractual commitments, government funding for regeneration as part of the LDA settlement has not been reduced at the same level as other areas. Expenditure for regeneration was £33 million in 2010/11; government funding for contractually committed regeneration projects under the Comprehensive Spending Review will be £27 million in 2011/12 and £10 million in 2012/13.<sup>19</sup>

The extent to which the Mayor can exercise the new powers available to him will depend, in part, on the resources available. The changes to the powers of the Mayor and GLA have taken place at a time of a significant retrenchment in public funding for economic development activity. The consequences of the organisational changes need to be

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<sup>18</sup> Note of informal meeting with business groups, 12 April 2011

<sup>19</sup> See Table 1, Appendix

seen in the context of the reduction in spending by central government and the capacity of the Mayor to generate funding locally to make up for the reduction.

# Funding for economic development in London

The sources of funding for economic development are also changing. The LDA previously funded many of the Mayor's economic development priorities from grants provided by central government; at its peak the LDA received £416 million in 2006/07.<sup>20</sup> Such grants will not be available to the same extent in the next few years. The Mayor has powers to raise funds from other sources, such as borrowing, and may be given further powers in the future. This chapter looks at the likely sources of funding available to the Mayor in the short and long term and what this might mean for his role in promoting economic development in the capital.

In doing so, it should be recognised that not all the Mayor proposes to do to support economic development in London requires a specific funding stream. For example, the Mayor has an important role to play in acting as what he describes as "a champion for London". In his strategy the Mayor commits to speak up for London: "arguing the case for continued investment in the capital and resisting changes that would damage its open and dynamic environment".<sup>21</sup>

## Public sector funding

There will be some public sector funding for the areas of economic development remaining under the Mayor's control though it will be much reduced. The Government is providing a grant for economic development of £391 million over the next four years. The bulk of this money is to be provided in 2011/12 and 2012/13; the government has committed to provide only £3 million in 2014/15.<sup>22</sup> Funding to cover the GLA's group's outstanding debt following the purchase of land for the Olympic Park is not separated out in the £391 million four-year settlement but, to put the figure in context, the LDA's strategy for repaying the debt is based on receiving grant funding of

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<sup>20</sup> By 2009/10 the LDA grant had reduced slightly to £375 million and then in 2010/11 it was cut to £275 million following the Government's Emergency Budget in June 2010.

<sup>21</sup> The Mayor's Economic Development Strategy for London, May 2010, para. A.2

<sup>22</sup> LDA grant settlement, March 2011. The GLA has said that it expects the 2014/15 grant level to be revisited by government since it will be the first year of the next spending review period (letter to the Chairman of the Committee from the GLA Executive Director of Resources, 30 June 2011).

£320 million over the same period. This suggests relatively little grant funding will be available for other economic development activities.<sup>23</sup>

The Mayor intends to provide additional economic development funding from the GLA's general budget, which is partly funded through a separate government grant and partly from the Mayor's Council Tax precept. For example, the Mayor has allocated £16 million in 2011/12 for London and Partners from the GLA budget. The forthcoming budget will determine the final amount of funding the Mayor will be able to make available for economic development activities.

The Government made additional funding available specifically for London following the riots and disturbances in August 2011. On 17 August 2011, the Government announced £20 million for a London Enterprise Fund to focus on the regeneration of Croydon and Tottenham. The funding is "designed to provide swift improvements so allocation of money could include investment in transport infrastructure, buying up and rebuilding affected properties and funding business rate relief as well as supporting employment".<sup>24</sup> The funding has been made available to the GLA immediately and is to be spent over the next three years. The Mayor has also committed £500,000 from the GLA to a new charity, the High Street Fund, which aims to support small businesses affected by the disturbances and which need immediate support.

There is little prospect of other funding from central government for economic development in London. The Government has set up the £1.4 billion Regional Growth Fund (RGF) but nobody anticipates London benefiting from it.<sup>25</sup> None of the projects selected for funding in round one of the RGF were in London and the Mayor's adviser told us he understood from government that London "need not bother bidding" for the second round.<sup>26</sup>

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<sup>23</sup> See Table 1, Appendix 1 for a comparison of government funding for economic development programmes between 2009/10 and 2012/13

<sup>24</sup> £20m to transform Tottenham and Croydon following riots, Mayoral press release, 17 August 2011

<sup>25</sup> £1.4 billion will be available over the three years between 2011 and 2014.

<sup>26</sup> Speaking to the Economy, Culture and Sport Committee, 21 June 2011

There are other sources of public funding available for economic development. For example, the GLA can continue to apply for European funding for economic development programmes and to benefit from the transfer of capital assets to the GLA. The GLA is set to gain land and property assets owned by the LDA and, potentially, HCA London. The scale of the potential benefit to be gained from these assets remains to be seen: negotiations with government are ongoing over the future of the HCA assets and the value of LDA assets and liabilities is still being assessed.<sup>27</sup>

### **Business rates**

A new potential source of longer-term funding is business rates revenue. The Government intends that from April 2013 any additional business rates income raised through the creation of enterprise zones will be retained by the relevant local enterprise partnership (LEP). The planned Newham Enterprise Zone and any others in London could therefore provide a funding stream for the London LEP, although there are questions about its likely scale and when it will become available given that rates will be discounted for the first five years for businesses newly locating within a zone.<sup>28</sup> The Mayor's adviser thought that this new revenue stream could eventually be "extremely large".<sup>29</sup>

He also suggested that Tax Increment Finance (TIF) had the potential to provide funding during the initial "fallow period" when business rates will be discounted. TIF involves borrowing against future increases in business rates revenue and has been suggested as a way of kick-starting economic development by providing upfront funding for, for example, new transport infrastructure. It is not currently

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<sup>27</sup> See Director Decision 438 authorising expenditure on a review of the full extent of LDA liabilities, 15 March 2011 (<http://www.london.gov.uk/who-runs-london/greater-london-authority/directors-decisions/dd438>)

<sup>28</sup> Rates to be retained will only be from businesses newly locating within the zone and rates for new businesses will be discounted for the first five years. Discounts of up to £55,000 per annum could mean businesses located in Newham benefiting from 100 per cent rates reductions given local rateable values.

<sup>29</sup> Speaking to the Economy, Culture and Sport Committee, 21 June 2011

possible without a change in legislation and will therefore not be an option until at least April 2013.<sup>30</sup>

There are concerns about the distribution of any additional business rates revenue from London enterprise zones. In other parts of the country where LEPs are smaller – often more or less contiguous with enterprise zones – LEP spending will be focussed in the area where business rates are collected. The fact that the London LEP will cover the whole of the capital will mean that rates collected from businesses within, for example, the Newham zone may be used to fund projects in other parts of London. This has the potential to lead to conflict with London boroughs which see money raised in their areas supporting projects elsewhere.

When we put this potential conflict to the Mayor's adviser on regeneration, growth and enterprise, he said it was a consequence of the legislation. He went on to say that London's economic development would be driven most effectively by the LEP looking city-wide and allocating funding where need is greatest.

Others were less convinced. The Chief Executive of the Thames Gateway Partnership criticised the fact there would not be a LEP in the Thames Gateway which would have enabled decisions about the allocation of money to be made by those representing the area where the funds were generated. She went on: "We are now in a position where it is up to London to decide [where the money goes]".

### **Borrowing**

The GLA is set to borrow up to £28.5 million in 2011/12 for regeneration projects.<sup>31</sup> This is a new approach to the financing of economic development activities since the LDA in the past only borrowed in relation to Olympic land commitments. The Mayor's new Outer London Fund – £50 million over the next three years to regenerate high streets – is mainly to be financed using borrowing.<sup>32</sup>

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<sup>30</sup> Department of Communities and Local Government, *Enterprise Zone Prospectus*, March 2011, p. 7

<sup>31</sup> GLA (Mayor and Assembly) Final Revenue Budget and Capital Spending Plan for 2011-12

<sup>32</sup> £10 million is being provided by the LDA in 2011/12 for the Outer London Fund following a Mayoral Direction. Otherwise, the Fund is being financed by GLA borrowing, including £15 million in 2011/12.

On top of the Outer London Fund, the Mayor has announced a further £50 million regeneration fund to “ help make major long term improvements to the capital’s town centres and high streets” following the recent disturbances in the capital.<sup>33</sup>

Like the Outer London Fund, the new regeneration fund will mostly be financed through GLA borrowing. The intention is that the GLA will borrow £110 million over the next four years for these funds and “other GLA/LDA capital projects”. We understand that this will result in an annual revenue cost of £11 million from 2014/15 but no details of a repayment schedule have yet been made available.<sup>34</sup> The capacity for borrowing to support Mayoral objectives may already have been reached. The Budget and Performance 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.<sup>35</sup> While the Assembly’s Budget and Performance Committee may wish to examine the financial implications, this Committee will return later in 2011/12 to look at the detail of the new regeneration projects being funded by the GLA.

### Conclusion

**Given the drop in central resources for economic development, the Mayor is right to look to other parts of the GLA budget, the new enterprise zones and the potential of Tax Increment Financing for innovative ways to secure funding for London projects. Nonetheless, these are unlikely to generate funding for economic development before 2013 at the earliest. Business rate revenue from the enterprise zone will take years to generate and Tax Increment Financing will need legislative change.**

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<sup>33</sup> Mayor’s press release, *Mayor to invest £50 million in long term regeneration of capital’s damaged town centres*, 11 August 2011

<sup>34</sup> Letter to the Budget and Performance Committee from Mayor’s Chief of Staff, 6 September 2011

<sup>35</sup> The GLA Director of Resources told the Assembly 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].

**This leaves borrowing as the main source of funding in the current tight public spending round to 2014/15. Borrowing to pay for regeneration schemes is not without risks and should be entered into only within a clear overall strategic and financial framework. The Mayor will need to demonstrate through the 2012/13 budget process that the costs of borrowing and plans for repayment are not creating unaffordable long-term commitments.**

**In the longer term, we are supportive in principle of the local retention of business rates through enterprise zones and TIF. There are, though, particular challenges in London to ensure support for the way money generated locally is spent. There is potential for future conflict between a London LEP led by the London Mayor, allocating funds to his or her priorities, and borough representatives of areas from where funds have been generated wishing to see the money spent in their area. The relatively long lead in before funding streams from London enterprise zones start to come through, means there is time to consider how to balance London-wide strategic decisions with demands from the parts of London where the revenue stream will come from.**

#### **Recommendation 2**

We recommend that, in the Implementation Plan for his Economic Development Strategy, the Mayor should clearly explain the criteria that will be used in cases where the London LEP plans to spend these funds in other parts of London.



# The role of the Mayor in providing a strategic lead

The Mayor's primary tool for setting out how he intends to fulfil his statutory duty to promote economic development is his Economic Development Strategy (EDS). This should provide the strategic vision and reference point for the various bodies involved in bringing about economic development in London. In particular, it should enable limited resources to be channelled effectively. A revised EDS was published by the Mayor in May 2010, setting out high-level objectives. The Strategy stated that there would be a more detailed Implementation Plan "shortly" but it has not yet been published.

We commented when the Strategy was published that it lacked a detailed explanation of how the Mayor intended to lead London towards his vision for its economic future.<sup>36</sup> Also, the Strategy was finalised before the announcement of government decisions about central funding, several new national policy initiatives and the publication of the finalised Spatial Development Strategy (the "London Plan") in July 2011.

Other strategic documents produced by the Mayor set out clearer obligations for the organisations engaged in their implementation. For example, TfL is under a duty to use its powers to facilitate and implement the Mayor's Transport Strategy (MTS); the boroughs must formulate plans to implement the Strategy in their areas; and "every person or body exercising statutory functions with respect to the Greater London area [...] must have regard to the MTS wherever relevant to do so".<sup>37</sup> Similarly, London boroughs' local development documents have to be "in general conformity" with the Mayor's London Plan. There are no such statutory requirements supporting the EDS.

The Mayor's Economic Development Strategy, published in May 2010, was clear that there was a need for an implementation plan to provide key actions and indicators to support the strategy. The implementation plan was to be reviewed annually to ensure it "supports the delivery of the Mayor's vision". Without an implementation plan that sets out what the Mayor is proposing to do and how others might support it, it is difficult to see what influence

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<sup>36</sup> Response by the Committee to the Mayor's Proposal for the Economic Development Strategy, July 2009

<sup>37</sup> Mayor's Transport Strategy, May 2010, paragraph 6

the strategy can have over the decisions of others involved in promoting economic development in the capital especially as it does not place the same statutory obligations on other bodies as, for example, the London Plan and Transport Strategy.

The Mayor can play an important role in establishing the new mechanisms for promoting economic development at a London-wide level. This could involve resolving the inevitable uncertainty around some of the new economic development structures. The Mayor could also usefully develop a collaborative approach with partners around solutions.

One example of the need for a collaborative approach is the London LEP. A number of the boroughs and the sub-regional partnerships which submitted views to our investigation highlighted the risks of a lack of communication by the GLA with other parties during the development of the LEP arguing it could hamper decisions around appropriate sub-London arrangements. For example, a representative of the London Borough of Wandsworth stressed the advantages of a collaborative approach arguing “We have got things to offer the Mayor’s Office and vice versa”. The Chief Executive of the Thames Gateway Partnership told us she did not believe it would be possible for the London LEP to succeed in areas such as skills without the help of local partners.

Similarly, there are other questions which the Mayor could help to answer. For example, what is the likely impact of enterprise zones and Mayoral development areas? Who will take a leading role in developing partnerships and funding packages for new schemes in the absence of the LDA? Having published his Economic Development Strategy, how will the Mayor deliver his economic development priorities and how can others support him to do so?

**The existing Economic Development Strategy sets out the Mayor’s priorities but lacks detail around how its objectives can be met. The context has also changed dramatically since its publication, with new arrangements for delivery and reduced central funding. While such changes may not change the overall priorities, there will need to be a new approach to their implementation. Additionally, based on what we have heard during our investigation, other bodies would like to be more**

**involved in shaping arrangements and responding to what the Mayor is planning.**

**A period of uncertainty was inevitable following the wide ranging changes to organisations and funding. These changes have now largely been completed. We would, therefore, like to see the EDS updated through the publication by the GLA of the expected Implementation Plan.**

### **Recommendation 3**

We recommend that by January 2012 the Mayor publish a detailed Implementation Plan for his Economic Development Strategy. It should contain proposals and options for the roles and objectives of the organisations with new responsibilities – including the GLA and the London LEP – and set out how activities assigned in the EDS to the LDA will now be taken forward; make clear how the GLA and the LEP will interact with each other and the existing bodies, including the boroughs and sub-regional partnerships; explain how the GLA and the LEP will add to what existing bodies can achieve; and describe new mechanisms for pooling funding for housing and regeneration and other assets such as land.

# Conclusion

We have looked at the Mayor's role in London's economic development at a time of concern and debate about the national economy. We seek through this report to understand how the Mayor and others can support the recovery in London but our findings have wider significance given the importance of the capital in driving the national economy.

The structural and financial changes we have highlighted are causing some concern and uncertainty among organisations outside the GLA which aim to bring about economic development in London. During our investigation we spoke to and receive written submissions from businesses, local authorities and sub-regional partnerships. Many were worried about the potential effects of the centralisation of some functions; the abolition of the LDA; the shift in the GLA's function from strategic towards delivery; and the creation of the London LEP.

Our recommendations are designed to help resolve areas of disagreement and increase clarity around how the new arrangements will work. We have called on the Mayor to publish by January 2012 the promised Implementation Plan to accompany his Economic Development Strategy. It is an opportunity to provide much needed detail about how the Strategy's objectives are to be delivered and is vital if all those striving to contribute to London's economic development can coordinate and channel resources effectively. Despite the structural changes giving the Mayor direct delivery responsibilities for the first time, it remains a crucial part of his role to provide strategic leadership in this area.

# Appendix 1 GLA/LDA budgets for economic development programmes

The Government's Comprehensive Spending Review (CSR) in October 2010 included a reduction in the funding available nationally for economic development from 2011/12. It also confirmed the abolition of the Regional Development Agencies. Although the London settlement was not announced at the time of the CSR, the Mayor had hoped that the resources available within the GLA group for economic development would continue at somewhere near their previous rates.<sup>38</sup>

In August 2010, the Mayor had written to the Chancellor setting out the case for continuing economic development funding for London. His submission set out an "essential, irreducible core of economic development activity that must be continued" and pointed out that the LDA budget for non-Olympics obligations had already reduced by a third between 2007/08 and 2010/11, from £317 million to £212 million.<sup>39</sup> He said,

I have limited ability to raise funds to promote economic growth and the funding previously for the LDA has been essential to deliver my election promises. It is vital therefore that in folding the LDA's activities into the GLA, adequate funding is maintained to enable me to do my job as Mayor effectively. [...]

This represents the absolute minimum required for me to carry out my statutory responsibilities under the 1999 and 2007 Acts, to deliver the Olympic legacy and to meet the Mayoral priorities on which I was elected in 2008.<sup>40</sup>

It was not until March 2011 that the LDA grant was eventually announced, following extended negotiations between the Government and the Mayor. It did not match what had been requested: the total settlement was £388 million (including funding for Olympic land payments), compared to the Mayor's request of over £1 billion.

The table below compares the LDA's programme budgets in 2009/10 and 2010/11 with grant funding for contractual commitments under

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<sup>38</sup> The government grant to the LDA was at its highest in 2006/07 at £416 million. By 2009/10 it had reduced slightly to £375 million and then in 2010/11 it was cut to £275 million following the Government's Emergency Budget in June 2010.

<sup>39</sup> Mayor's submission to government prior to the CSR, paras 5.1 & 5.2

<sup>40</sup> Ibid, paras 4.2 & 8.4

the CSR for 2011/12 and 2012/13.<sup>41</sup> The table also shows the Mayor's request from Government prior to the CSR.

**Table 1: LDA economic development programmes year-on-year comparison:**

(£ million)	2009/10 outturn	2010/11 outturn	2011/12		2012/13	
			Request	Actual	Request	Actual
Regeneration	22	29	36	27	37	10
Skills and employment (inc. youth and volunteering)	41	25	50	13	49	7
Business support	57	26	17	6	14	0
International promotion	35	26	27	1	27	1
Olympic legacy	16	4	*	22	*	7
Climate change	21	31	18	8	19	0
<b>Total</b>	<b>192</b>	<b>141</b>	<b>148</b>	<b>77</b>	<b>146</b>	<b>25</b>

\* The Mayor's request did not include a separate bid for Olympic legacy programmes as these were covered under skills and employment and business support categories

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<sup>41</sup> 2009/10 figures have been taken from the 2010/11 GLA Group Budget; 2010/11 figures from the LDA Board paper, *Financial Outturn Report 2010/11*, July 2011; 2011/12 and 2012/13 figures from the LDA Board Written Resolution, *Investment Strategy and Business Planning Final 2011/12*, 25 March 2011; and Mayoral requests from *The Mayor of London's Spending Review Submission to HM Government*, August 2010.

## Appendix 2 Recommendations

### Recommendation 1

We recommend that in his response to this report, by January 2012, the Mayor set out his strategy for seeking to influence central government to make the case for London ahead of the next Comprehensive Spending Review. This should include his policy on securing powers and funding for skills and specialist business support in the capital.

### Recommendation 2

We recommend that, in the Implementation Plan for his Economic Development Strategy, the Mayor should clearly explain the criteria that will be used in cases where the London LEP plans to spend these funds in other parts of London.

### Recommendation 3

We recommend that by January 2012 the Mayor publish a detailed Implementation Plan for his Economic Development Strategy. It should contain proposals and options for the roles and objectives of the organisations with new responsibilities – including the GLA and the London LEP – and set out how activities assigned in the EDS to the LDA will now be taken forward; make clear how the GLA and the LEP will interact with each other and the existing bodies, including the boroughs and sub-regional partnerships; explain how the GLA and the LEP will add to what existing bodies can achieve; and describe new mechanisms for pooling funding for housing and regeneration and other assets such as land.

# Appendix 3 Orders and translations

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### Greek

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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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અથવા ઉપર આપેલ ટપાલ અથવા ઇ-મેઇલ સરનામા  
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