Appendix 1: Pre-budget report 2010

Recommendation 1: In the absence of the Arbiter's independent assessments on the costs of the Tube upgrade programme, TfL should set out in its annual report the measures taken during the year to reduce costs. It should also include the results of any analysis of costs undertaken by the investment panel. This would help demonstrate the extent to which value for money is being achieved.

TfL is committed to:

- Setting out the measures it has put in place to improve efficiency and reduce costs in its Annual Report;
- Publishing four weekly reports that contain detailed information on LU's maintenance costs and capital expenditure; and
- Continuing to publish an annual review of performance of the former PPP activities.

The most important development in the post-PPP arrangements has been the establishment, with Government, of the Independent Investment Programme Advisory Group, comprising independent industry experts who scrutinise TfL's investment programme.

The Group will be responsible for providing direction to a team undertaking benchmarking of the costs of maintenance and project delivery on the Underground network, using data provided by LU and whatever else is available and appropriate, including international benchmarking.

The Group will also publish an annual report on the delivery of TfL's Investment Programme and oversee the publication of LU's quarterly benchmarking reports.

Recommendation 2: In his response to this report the Mayor should set out what he sees as his role in leading a strategic approach to pay across the GLA group. He should also set out what lessons have been learned from the multi-year agreements which are resulting in TfL staff receiving pay deals vastly at odds with other public sector employees.

The Mayor supports the Government's two year pay freeze across the UK public sector and expects the GLA Group to abide by that arrangement wherever possible.

In the case of TfL, for the second year running TfL has frozen senior salaries whilst the Commissioner and Chief Officers have all waived their performance awards.

More generally, TfL is directly competing in the job market with comparable transport, infrastructure and engineering companies. This means that TfL needs to look at comparisons with a range of public and private sector companies when assessing pay.

For example, Network Rail and the private train operating companies are relevant comparators for LU and London Rail operational staff. There are also a number of specialist skills, for example engineering, which TfL relies upon but are less likely to be found in other parts of the GLA Group.

Multi-year pay agreements have proved an effective framework allowing TfL to budget and plan with some certainty for its payroll costs, and providing similar certainty and stability for employees.

They also reduce the likelihood of disruption to services due to non-agreement to annual pay proposals and also save resource time spent in negotiations with the unions each year.

Most multi-year deals will have some form of RPI+"x"% formula after the first year. Whilst many employers have applied pay freezes or flat rate increases in the current economic climate, TfL believes that the multi-year deals have been effective in maintaining pay at reasonable levels for both the employer and for employees over the longer term.

Recommendation 3: In the draft budget in December the Mayor should set out his plans (if any) to use LFEPA's reserves to contribute to its long-term savings agenda.

Please see paragraphs 5.20 and 5.21 of the Mayor's consultation budget.

Recommendation 4: We support the Mayor's position in lobbying for the transfer of LDA assets to the GLA. In his response to this report the Mayor should report back to the Committee on the progress of negotiations with government on asset transfer, the amount of transitional funding and flexibility.

Negotiations with Government on the LDA settlement are on-going and are expected to be concluded in January. At that point more details will become available.

Recommendation 5: When publishing his draft budget in December, the Mayor should set out the rationale for his preliminary decisions about allocation of the council tax precept between the functional bodies.

The rationale is included in the Mayor's consultation budget.

Recommendation 6: The Mayor should include in the draft GLA group budget on 15 December a statement of his revised priorities across the GLA group in light of budget reductions.

The Mayor's priorities are out in his consultation budget.

Recommendation 7: In his response to this report, the Mayor should set out what plans he has to ensure that the shared services agenda is taken forward.

Appendix F of the Mayor's consultation budget sets out details of the shared services agenda.

Recommendation 8: In his response to this report, the Mayor should set out his position on the potential roles of Tax Increment Finance and bond issuance in supporting investment in London.

The Mayor welcomes the Government's announcement that it plans to introduce new borrowing powers to enable local authorities to carry out Tax Increment Financing (TIF). Given the current economic environment, TIF has the potential to unlock infrastructure projects that otherwise would not go ahead, providing a new financing mechanism for London.

Transport infrastructure has a large role to play in improving the accessibility of large areas of London, thus making them more attractive for regeneration and redevelopment. The Mayor has already identified a number of schemes that already appear to meet TIF criteria.

Of these, the proposed Northern Line extension from Kennington to Battersea Power Station would appear to be the project most suitable to TIF. It has the potential to unlock the largest remaining opportunity area in the Central Activities Zone of London, and TIF has the potential to provide a useful alternative funding source for its development.

TfL's prudential borrowing is limited by agreement with the Government. TfL has issued bonds in the past as part of its prudential borrowing to support its Business Plan and bond issuance remains a key part of TfL's financing strategy. The issuance of TfL bonds is subject to the borrowing limits agreed with Government in the Spending Review and therefore does not provide additional funding capacity.

Paragraph 2.19 of the Mayor's consultation budget also discusses the option of the GLA issuing bonds as an alternative to borrowing to finance its contribution to Crossrail.