

Budget and Performance Committee response to the Draft GLA Budget for 2012/13

This document is the Budget and Performance Committee's response on behalf of the Assembly to the draft GLA budget 2012/13. The GLA's responsibilities and budgets will increase significantly from 2012/13. The Localism Bill will mean that the Homes and Communities Agency (HCA) London operations and the London Development Agency (LDA) functions will be devolved to the GLA from April 2012. The devolution of these functions to the GLA should allow London to benefit from local decision making and a more joined-up approach to regeneration and development in the capital. To make this work, the GLA will need to have ownership and control over the LDA and HCA London assets and sufficient funding and powers to regenerate them effectively.

The GLA is still in negotiations with the Government over the funding package that will accompany its new functions and responsibilities. This response therefore sets out the key issues faced by the GLA at this stage of the budget setting process and the progress in addressing these issues that the Mayor's Chief of Staff and GLA Directors expect to be made by the time the Draft Consultation Budget is published in December. The response is structured around three themes: Olympic land debt; funding for new GLA functions; and savings and efficiencies.

Olympic land debt

As the situation currently stands, the GLA is set to inherit the LDA's Olympic land related debt without adequate committed funding to repay it. The draft GLA budget shows that the Government has committed to provide the GLA with sufficient grant funding to reduce the debt from £349 million at 1 April 2012 to £231 million by 31 March 2014, but not to provide further funding for repayments beyond this date or to cover associated interest costs.

Potential financial risks associated with the transfer in of the LDA to the GLA have been a long-standing concern of this Committee. We highlighted more than a year ago the risks of the GLA taking on responsibility for the LDA's Olympic land liabilities without a firm commitment from the Government to provide adequate funding to cover repayments. We said the following in our *Finances of the Olympic Legacy* report:

If the LDA is to be wound up, the outstanding debt to government and other ongoing Olympic commitments will need to be settled. This may have implications for the funding available in London for economic development in 2011/12 and beyond as well as the Mayor's plan to roll the LDA's functions into the GLA.¹

We had been assured that the Government would cover most of the Olympic debt through additional grants. The Mayor explained in February 2011 that LDA Olympic liabilities would be met through ongoing funding and, to a relatively small extent, asset sales (as set out in the LDA's funding strategy).² Again, in September 2011, we were told that we should expect additional

¹ Budget and Performance Committee, *Finances of the Olympic Legacy – Part 1*, October 2010, p. 19

² The Mayor's response to the Budget and Performance Committee's report, *The Finances of the Olympic Legacy*, included in the Mayor's report for the period 13 January – 19 February 2011 (section 60 response). The LDA's funding strategy included £41million of funding from asset sales and £276 million from grant funding between 2013/14 and 2018/19.

grant funding because it had been agreed as part of the deal to transfer the Olympic Park land from the LDA to the OPLC.³

This expectation was not based on a formal agreement with the Government. The GLA's plans were based on receiving £276 million of grant funding between 2013/14 and 2018/19.⁴ Correspondence between the Mayor and the Government shows that the deal to transfer the Olympic land to the Olympic Park Legacy Company in 2010 did not stipulate how the LDA's ongoing debt repayments would be funded.⁵

Further grant funding now looks unlikely, but we heard on 23 November that the Mayor still expects to be adequately compensated for taking on the LDA's Olympic liabilities. While nothing has been agreed yet, the Mayor's Chief of Staff told the Committee that ongoing discussions with the Government were positive and that he expects the situation to be resolved by the time the Draft Consultation Budget is published in December. He said,

There is not a problem. [...] There are no issues between any of us and I think there is complete understanding but nothing is actually firmed up and agreed at this point in time.⁶

The Mayor's Chief of Staff told the Committee that the Olympic debt could be met through future capital receipts from the sale of Olympic Park land.⁷ As part of negotiations over the transition of the Olympic Park Legacy Company to a Mayoral Development Corporation, the GLA is looking to renegotiate the existing agreement around the share of capital receipts from the eventual sale of the Olympic Park. The Olympic land transfer deal determined that central government would be entitled to 85 per cent of the first £650 million with the remaining 15 per cent going to the GLA. A greater share of these receipts could contribute to covering the GLA's new liabilities.

The Outstanding Olympic debt will also be considered in negotiations over the transfer of HCA London. When asked if funding would be available to help meet the debt as a result of negotiations over the transfer of HCA London, the Mayor's Interim Executive Director of Housing told the Committee that:

What I would say is that, - it is a negotiation in the round where the position on Olympic debt, the build out of the Olympic Park and HCA assets have to be seen in the round. [...] If the deal on the table might comprise a more generous view about how much of that HCA asset

³ When asked whether the GLA should expect to receive further grant funding to cover LDA Olympic liabilities, the GLA Head of Resources said: "Yes because the actual Olympic debt finance strategy was also agreed with Government as part of the land that was transferred to the Olympic Park Legacy Company (OPLC), so from my perspective, GLA's perspective, LDA's perspective, people I have been talking to in the Government, it is all meant to be part of an agreed package. Budget and Performance Committee meeting, 14 September 2011

⁴ The LDA funding strategy included £276 million of grant funding between 2013/14 and 2018/19.

⁵ Letters recently provided to the Committee: from the Secretary of State to the Mayor, 15 March 2010; from the Mayor to the Secretary of State, 22 March 2010; and the Chancellor of the Exchequer to the Mayor, 6 June 2010.

⁶ Mayor's Chief of Staff speaking at the Budget and Performance Committee meeting, 23 November 2011. He also told the Committee that "We are looking to conclude this before Christmas and we have made it very clear to CLG that we need to publish our draft budgets prior to Christmas"

⁷ Mayor's Chief of Staff speaking at the Budget and Performance Committee meeting, 23 November 2011

*can be recycled here, clearly the Government's view is going to be that there is the potential for the GLA to look at things in the round and put the Olympic debt position against that.*⁸

We continue to support the Mayor in his negotiations with Government over the transfer of the LDA's Olympic liabilities to the GLA. We note that the Mayor's Chief of Staff expects a positive package of compensation for taking on the LDA's Olympic land liabilities to be agreed in time for the publication of the Draft Consultation Budget in December. We ask that the document sets out the outcome of negotiations and details of how the GLA will be compensated for taking on the LDA's Olympic land liabilities.

Only when current negotiations are complete will we be in a position to judge whether the Mayor has managed to secure a fair deal for the GLA. What is clear is that, with compensation now expected in the form of future capital receipts rather than grant funding, financial risk has been transferred from central government to the GLA. This increased risk will need to be balanced with increased access to reward.

Funding for new GLA functions

The GLA is planning to spend more on its new HCA and LDA responsibilities than it is currently expecting to receive in grant funding for these activities. The draft budget shows that planned revenue expenditure on former LDA programmes is expected to exceed grant funding by £1.9 million in 2012/13 and over £7 million each year after that.⁹ In term of HCA revenue expenditure, the draft budget shows that the GLA will spend over £3 million a year more on administrative costs than it is expecting to receive for these in grant funding.¹⁰ In addition to programme and administrative costs, most of the GLA's borrowing costs relate to servicing debt transferring from the LDA. Borrowing costs, which include interest payable and a minimum revenue provision, are forecast to total £15 million, £23 million and £19 million over the next three years.¹¹

Currently, funds are only available to cover the additional costs of LDA and HCA activities in 2012/13. The draft budget includes the use of the LDA's transition reserves of £27 million to cover the additional LDA and HCA costs in 2012/13. However, further such reserves are not available and the draft budget includes budget gaps in excess of £32 million in both 2013/14 and 2014/15.

We heard that negotiations were ongoing with government over funding for HCA London administration costs. The GLA Interim Executive Director for Housing and Regeneration explained that he expected the final government grant to cover all HCA London administration costs:

⁸ Interim Executive Director Housing and Regeneration, GLA, speaking at the Budget and Performance Committee meeting, 23 November 2011

⁹ See the revenue expenditure table under "Former LDA programmes". The Government is not intending to provide any funding for LDA programmes or staff after 2012/13.

¹⁰ The grant for HCA administrative costs is £3.4 million in 2012/13 and £2.5 million after that.¹⁰ Costs are therefore forecast to be £6.4 million in 2012/13 and £5.7 million a year in years two and three of the budget.

¹¹ See the revenue expenditure table, agenda p. 70. Minimum revenue provision is revenue required to be set aside to ensure the GLA complies with the prudential borrowing code, given that there is no confirmed funding to repay or service the debt beyond 2013/14.

Discussions are continuing but in a very positive way so I am pretty confident that we are going to end up with a settlement that does cover the full legitimate costs of inheriting the HCA.¹²

It is less clear whether grant funding for the continuation of former LDA programmes is still up for negotiation. The LDA final settlement grant only provided funding for existing contractual commitments and no programme funding was provided beyond 2012/13. The Mayor, however, made it clear in October 2011 that he hoped the Government would include some additional funding in the GLA general grant for the responsibilities it will take over from the LDA:

That settlement [GLA grant] will need to include funding for my new responsibilities once the Localism Bill is enacted, including the folding in of the LDA into the GLA, for which no real funding has been agreed.¹³

Without further government funding to cover the ongoing costs of these new responsibilities, the GLA will have to reduce its revenue expenditure significantly from 2013/14 onwards. We were told that a project prioritisation process would be used to help close the funding gaps in 2013/14 and 2014/15 but, given that they amount to over 25 per cent of planned net service expenditure, large numbers of programmes would have to be brought to an end by April 2013 if additional grant funding is not forthcoming.

Expected government funding (as set out in the draft budget) does not cover the revenue costs of taking on HCA London and LDA programmes. We have been told to expect further funding to cover the currently unfunded administrative costs of over £3 million each year for HCA London and will look for evidence of this in the Draft Consultation Budget in December.

It seems less likely that further government funding will be made available for LDA activities, which will result in budget gaps in 2013/14 and 2014/15. We do not expect years two and three of the budget to be balanced at this stage, given the size of the gaps if further funding is not made available. Nevertheless, we expect to see a plan in place for tackling the budget gaps and the likely implications for existing and new GLA functions/programmes from the inevitable reprioritising that will need to take place.

Savings and efficiencies

The draft budget shows that the GLA has so far found 70 per cent of the 2012/13 savings target set by the Mayor. The Assembly and the Museum of London met their targets but at this point the other GLA directorates have only identified £1.3 million of the £2 million savings requirement. We were assured that further expenditure reductions would be found to enable the GLA to reduce its controllable expenditure by the required five per cent by the time the Draft Consultation Budget is published in December.

GLA savings targets are no longer primarily being met through finding efficiencies. Despite directorate spending reductions being described as “efficiency savings” in the draft budget, the

¹² The GLA Interim Executive Director for Housing and Regeneration speaking at the Budget and Performance Committee meeting, 23 November 2011

¹³ Letter from the Mayor to the Secretary of State, *Local Government Resource Review*, 24 October 2011

Mayor's Chief of Staff made it clear to us that some of the required savings will come from ending programmes and the GLA carrying out fewer activities.^{14,15}

The distinction between savings that come about through finding efficiencies and those that will result in service reductions is important. An efficiency saving involves achieving the same output with less funding or achieving a greater output with the same funding. Where service levels are being reduced or programmes stopped, expenditure reductions cannot be classified as efficiency savings. We ask that the Draft Consultation Budget only describes budget reductions as 'efficiency savings' where there are no reductions in service levels or programme outputs.

Additionally, we request that the Investment and Performance Committee writes to us, within two weeks of decisions being made, with the details behind the decisions about which programmes to continue and which to end.

Overall conclusion

The need to secure from the Government a means of repaying the Olympic land debt remains the key issue facing the Mayor as he prepares the GLA Group budget for next year. The outcome of the ongoing negotiations will determine the extent to which the Mayor and the GLA can fulfil the new responsibilities for regeneration and economic development that have been transferred. Given the fact that the transfer of functions from the HCA and the LDA to the GLA is now imminent, we look to the December Draft Consultation Budget to resolve the Olympic land debt issue.

¹⁴ The Draft budget for 2012/13, Item 7 includes a table of GLA efficiency savings proposed for 2012/13.

¹⁵ Mayor's Chief of Staff speaking at the Budget and Performance Committee meeting, 23 November 2011