

**London Assembly
Budget Committee**

**Issues for the Mayor's
2004/05 Consultation Budget**

November 2003

1 Executive Summary

- 1.1 We are approaching the fourth Greater London Authority (GLA) Group budget; the budget for 2004/05 and the last to be set before the June 2004 GLA elections. The gross expenditure for the Group stands at £7.5bn in 2003/04. Although less than a tenth of this expenditure is funded by London Council Tax payers, the level of Council Tax precept levied by the GLA receives widespread attention.
- 1.2 The signs are that the 2004/05 budget precept level could well be at the lower end of the three previous rises which were 23% for 2001/02, 15% for 2002/03 and 29% for 2003/04. The increase would need to be limited to under 10% to avoid a doubling of the precept over the first term of the GLA.
- 1.3 This Summary focuses on the two areas which account for 90% of the Group's gross expenditure (but with very different impacts on the precept): transport and policing. In each case the budget agreed for 2004/05 will have far-reaching consequences for the budgets for 2005/06 and beyond.
- 1.4 On Transport for London's (TfL) budget (gross expenditure of £4.0bn in 2003/04):
 - The Mayor is seeking to persuade Government through its spending review process of the merits of providing additional funding of £1bn each from 2005/06. The bus subsidy will exceed £800m in 2004/05 and soon after that is due to reach £1bn. The benefits offered by an expanding bus service in London need to be weighed against the benefits offered by other projects which compete for resources in the TfL budget; taking into account the relative timings of transport schemes. These projects include major capital schemes such as the Docklands Light Railway (DLR), the Thames Gateway Bridge and the widening of the North Circular (A406).
- 1.5 On the Metropolitan Police Authority's (MPA) budget (gross expenditure of £2.7bn in 2003/04):
 - The Step Change Programme oversees the plans and options for an increase in policing numbers in London to a total strength of 35,000 over the next four to five years. Although it is hoped that there could be additional financial support from the Government for 2005/06 and beyond, there has been no indication that Government is in a position to fund the Programme in 2004/05; indeed the potential costs of the Programme have yet to be included in the MPA's own budget plans for 2004/05. The Committee has highlighted the possibility of developing a performance output measure which would be able to demonstrate to the public and other stakeholders the benefits of the additional, as well as the existing, police officers and their support officers. The measure could be along the lines of 'arrests per borough officer per month' and would seek to complement existing indicators for police visibility and crime reduction.

2. Introduction

- 2.1 This report is addressed to the Mayor and raises issues for his 2004/05 Consultation Budget which is due to be released in December 2003. The main issues highlighted by the Committee are included in section 4 of this report. The issues will be developed further as the budget process unfolds, to date the Committee has received first quarter 2003/04 monitoring returns from the GLA Group and is due to receive the second quarter 2003/04 monitoring returns in December.
- 2.2 The report covers the five authorities which together make up the GLA Group. Gross expenditure for the GLA Group in the current financial year, 2003/04, totals £7.5 billion:

GLA Group authority	Gross expenditure, 2003/04, £m
Transport for London (TfL)	4,028
Metropolitan Police Authority (MPA)	2,680
London Fire & Emergency Planning Authority (LFEPA)	404
London Development Agency (LDA)	338
Greater London Authority (GLA)	67
GLA Group total	7,517

- 2.3 Only 8% of these funds come from Council Tax through the GLA precept. The precept is levied by the GLA and collected by London Boroughs:

GLA Group authority	Precept, 2003/04, £m
Transport for London (TfL)	58
Metropolitan Police Authority (MPA)	443
London Fire & Emergency Planning Authority (LFEPA)	111
London Development Agency (LDA)	0
Greater London Authority (GLA)	20
GLA Group total charged	632
GLA's share of the collection surplus	(6)
GLA Group total levied	626

- 2.4 The current precept at Band D is £224, split by GLA Group authority:

Authority	2003/04 GLA precept, Band D, £
TfL	20
MPA*	159
LFEPA	40
LDA	0
GLA	5
Total	224

* City of London residents do not pay the MPA element of the precept, as the Corporation of London has its own police force

- 2.5 The precept equivalent before the first GLA Group budget was set was £123. The increase for 2004/05 would have to be restricted to less than 10% to avoid the precept doubling over the first term of the GLA.

- 2.6 Previous precept and gross expenditure rises illustrates the extent to which gross expenditure has increased at a greater rate than government grant, fares and other income:

Budget year	% precept increase	% gross expenditure increase*
2001/02	23	16
2002/03	15	13
2003/04	29	24

* Excluding the Tube

- 2.7 The Budget Committee's role is to monitor the expenditure and financial plans of these five authorities during the year and, in January each year, respond on behalf of the London Assembly to the Mayor's Consultation Budget.
- 2.8 The Assembly then considers the Mayor's Draft Consolidated Budget in January and his Final Draft Consolidated Budget in February. In the last three years the Assembly has reduced the Mayor's budget by £126m over the course of the budget setting process from the Consultation Budget to the finally agreed budget:

Budget year	Assembly saving, £m	Equivalent Band D decrease, £
2001/02	25	10
2002/03	69	29
2003/04	32	12
Total	126	-

- 2.9 The Committee has held a series of meetings with the GLA Group authorities between March and November 2003 on the following topics:
- Quarterly monitoring returns (3rd quarter return 2002/03 on 18 March, year-end outturn 2002/03 on 17 July and first quarter 2003/04 on 16 October)
 - Key budget issues for which authorities provided factsheets (TfL, LDA and GLA on 12 June and 16 October and MPA and LFEPA on 26 June and 6 November)
 - The Mayor's Review of the Budget and Equalities Process (12 June)
 - The Mayor's Budget Guidance (12 June); further details on the savings options included in the Guidance follow in section 3.
- 2.10 The Committee also undertook two specific reviews:
- GLA Procurement (discussed on 18 March, a meeting which was reconvened on 19 March, and also on 29 April and 22 May)
 - TfL's contract with Capita for the Congestion Charge Scheme (discussed on 11 September and 16 October).
- 2.11 The Committee would like to record its thanks to all the officials who have attended its meetings and provided information, sometimes at short notice and often against a backdrop of conflicting demands on their time. Thanks are also due to representatives of the Metropolitan Police Service for making a presentation to Assembly Members on the Operational Policing Measure.

3 The Mayor's Budget Guidance: Savings Options 2004/05

- 3.1 The Mayor's Budget Guidance was issued in May and presented GLA Group authorities with the following savings options (for the LDA, see paragraph 3.4 of this report):

Authority		Savings options 2004/05
TfL	Option 1	A standstill precept level (£57.8m)
	Option 2	A standstill precept level plus, the cost of any increase in transport policing initiative
	Option 3	A budget requirement of £83.3m per the 2004-05 forward plan in the published final GLA budget
MPA*	Option 1	A precept increase limited to 2.5% (£454.8m)
	Option 2	2003-04 precept (£443.7m) plus, the full year cost of 2003-04 officer and PCSO growth
	Option 3	A budget requirement of £2,351.6m per the 2004-05 forward plan in the published final GLA budget
LFEPA	Option 1	A precept increase limited to 2.5% (£113.8m)
	Option 2	A precept increase limited to 7.5% (£119.3m)
	Option 3	A budget requirement of £401.6m per the 2004-05 forward plan in the published final GLA budget
GLA	Option 1	A standstill precept (£19.9m)
	Option 2	A precept increase limited to 2.5% (£20.4m)
	Option 3	A budget requirement of £57.3m per the 2004-05 forward plan in the published final GLA budget

* Discussions are continuing with the MPA about the strategy and options for increasing police numbers to 35,000 over the next 3 to 5 years. The Mayor will be seeking further support from Government for funding these proposals and may issue further budget guidance to the MPA following these discussions.

- 3.2 In its response to the Mayor's 2004/05 Consultation Budget in January 2004, the Committee will examine the extent to which the Consultation Budget follows the savings guidance provided by the Mayor at the beginning of the process.

- 3.3 In their submissions to the Mayor, authorities have reached the following positions with regard to the savings options (further details are provided below):
- TfL; at Option 2 but close to Option 1
 - MPA; approximately midway between Options 2 and 3
 - LFEPA; between Options 2 and 3, but closer to Option 3
 - GLA; at Option 1.
- 3.4 The Mayor's Budget Guidance does not present the LDA with savings options, but instead asks that:
- "An increased proportion of the total LDA budget be allocated to direct programme expenditure (instead of research and policy and programme support); the allocation being comparable with that of the best performing RDAs."
- TfL
- 3.5 On the premise that the Government will meet the £45m in additional funding required by the Tube in 2004/05; the only additional item listed¹ in the TfL Business Plan to be funded via Council Tax is the full-year 2004/05 cost of the 2003/04 expansion in the transport policing initiative. This comes in at £8m.
- 3.6 Therefore TfL is currently at Option 2 ('a standstill precept level plus the cost of any increase in transport policing initiative'), but is close to achieving Option 1 (a standstill precept level of £57.8m).
- MPA
- 3.7 The MPA's budget submission to the Mayor comes in at approximately midway between Options 2 and 3, with a further £18m in savings required to reach Option 2. The MPA and MPS have indicated that staff cuts would be required to achieve the additional £18m in savings.
- 3.8 The savings options in the Mayor's Budget Guidance² make specific provision for the Step Change Programme:
- "Discussions are continuing with the MPA about the strategy and options for increasing police numbers to 35,000 over the next 3 to 5 years. The Mayor will be seeking further support from Government for funding these proposals and may issue further budget guidance to the MPA following these discussions."

¹ Page 19 of the TfL Business Plan 2004/05 – 2009/10. All figures included in the Plan are based on 2004/05 prices

² Paragraph 4.12 on page 7 of the Guidance

LFEPA

- 3.9 LFEPA's submission to the Mayor comes in at between Options 2 and 3 but closer to Option 3. LFEPA has made savings of £2.5m in excess of those required by Option 3. Option 2 would require another £11.5m worth of savings to be made. LFEPA has indicated that achieving Option 2 would have an adverse impact on frontline services.

GLA

- 3.10 The expenditure plans in the Mayor's draft GLA budget submission amount to a standstill precept of £19.9m and equate to Option 1 in terms of the savings options included in the Mayor's Budget Guidance.

Issues for the Mayor's 2004/05 Consultation Budget

Issue 1: TfL: additional funding requirement for 2005/06 and beyond

- 4.1 The Mayor is about to propose the GLA Group budget for 2004/05. The GLA budget setting process runs from December to February. Although the formal decision relates solely to 2004/05, the plans for 2005/06 are an important consideration, particularly because the commitments entered into for 2004/05 will effect the degree of flexibility which can be exercised in the budget setting process for 2005/06 and beyond.
- 4.2 The TfL Business Plan for 2004/05 to 2009/10 gives³ a funding requirement in excess of indicative Government grant levels of £945m for 2005/06, of which £365m relates to London Underground and £580m to the rest of TfL.
- 4.3 The understanding reached with the Government at the time of the Tube's handover to TfL would indicate that the £365m additional Underground funding requirement would be met by the Treasury.
- 4.4 However the position on the £580m additional funding requirement for the rest of TfL is less clear. In a document accompanying a TfL press release on fares on 19 August 2003, a letter to stakeholders states that:

"Ministers have decided that the spending plans for the first year of the period (2005-06) which were set in the last Spending Review will not be revisited."
- 4.5 Despite this, the Mayor, who chairs TfL, still hopes to persuade Government that additional funds should be provided to TfL for 2005/06. The results of the Government's spending review, known as SR2004 and covering the financial years 2005/06, 2006/07 and 2007/08, are due to emerge in mid-2004.
- 4.6 The merits of TfL's bid for additional funding from Government will no doubt be the principal issues for consideration during the budget setting process. The key parts of that bid are discussed below.
- 4.7 One of the main strands of the argument being advanced by the Mayor is that growth in population in London will require additional investment in transport. It might, then, be worth revisiting TfL's Business Plan⁴ to explain why the costs associated with 'meeting increased demand for existing services' over the next six years are substantially (82%) higher than those associated with 'accommodating London's growth'.

³ TfL Summary Business Plan on page 17

⁴ TfL Summary Business Plan on page 17

- 4.8 It might also assist the Mayor's case to develop a statement to the effect that 'failing to invest this extra £1bn each year in transport services will cost London's economy £Xbn as a result of London not being an attractive location for businesses, commuters being late for work et c.'.
- 4.9 Whatever the outcome of the negotiations with Government, the Committee remains concerned that TfL may be failing to meet the Mayor's Budget Guidance for 2004/05 which states⁵ that GLA Group authorities should ensure that "there are sound medium and long term financial plans within which all priorities and objectives are adequately funded".
- 4.10 One of the main debates to be had over the TfL Business Plan will be the funding options available for TfL's major capital projects and how high profile schemes such as adding capacity to the Docklands Light Railway (DLR), the Thames Gateway Bridge and the widening of the North Circular (A406) can be taken forward. Not only will the different possible levels of financial support from the Government be a factor, but also the relative priority given by TfL to competing items in its budget.
- 4.11 The TfL Summary Business Plan⁶ presents TfL's spending plans in terms of a net baseline figure for the next six years (this baseline figure covers essential safety and committed expenditure, net of efficiencies) followed by other budget plans to give an indication of the additional funding required from Government:

£m	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
TfL baseline (net)	298	(83)	(55)	(10)	(40)	(90)
Other budget plans (net)	(343)	(862)	(930)	(941)	(927)	(925)
Additional funding req't	(45)	(945)	(985)	(951)	(967)	(1,015)

⁵ Paragraph 1.2 on page 2 of the Guidance

⁶ Page 17 of the Plan

- 4.12 TfL's baseline figures do not include some of the major capital projects planned (they form part of TfL's other budget plans):

Expenditure on major capital projects, £m	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
DLR projects⁷	15	29	98	85	51	26
Thames Gateway Bridge⁸	4	4	3	2	3	36
A406 widening⁹	3	3	5	25	25	25

- 4.13 On Crossrail, London's Transport Commissioner told the Committee at its 16 October meeting that:

"Crossrail, incidentally, will never be fully funded if there are not alternative funding mechanisms in place to get it done".

- 4.14 Given that problems have also been reported in obtaining private sector funding for Crossrail, the project now seems to rest on alternative forms of funding being levered in through public sector channels.

- 4.15 The TfL Business Plan¹⁰ shows that, in terms of the additional funding requirement, operating costs go from forming 40% of the requirement in 2005/06 up to forming 55% of the requirement in 2009/10; with the reverse being that capital costs go from forming 60% in 2005/06 down to forming 45% in 2009/10. Getting an appropriate balance between operating and capital costs will be central to future discussions of TfL's plans.

- 4.16 The omission of financial data for the current year (2003/04) is surprising in that the Business Plan produced by TfL last year did include that data. Forecasts of expenditure for the current financial year would be a useful addition to the Business Plan in that it would allow an easy comparison of current spending levels with future plans.

⁷ Pages 34 and 37 of the Plan

⁸ Page 37 of the Plan

⁹ Page 40 of the Plan

¹⁰ TfL Summary Business Plan on page 17

- 4.17 The format of the Summary Business Plan¹¹ does not make it easy to get a breakdown of expenditure by mode of transport. This is particularly true of bus spending plans and calculating the bus subsidy.
- 4.18 A comparison of the additional funding requirement shown in TfL's current Business Plan with the Business Plan produced last year shows the increasing cost pressures:

Funding req't, £m	2004/05	2005/06	2006/07	2007/08	2008/09
Current plan¹² (without LU)	0	580	677	705	732
Last year's plan¹³	35	564	442	429	522
'Increase' in funding req't	(35)	16	235	276	210

- 4.19 The additional funding requirement has increased over the last year despite an increase in the expected level of Government grant, when comparing this year's Plan with last year's:

Gov't grant, £m	2004/05	2005/06	2006/07	2007/08	2008/09
Current plan¹⁴ (without LU)	1,205	1,026	1,045	1,035	994
Last year's plan¹⁵	1,117	947	1,023	1,020	985
'Increase' in grant	88	79	22	15	9

¹¹ Page 17 of the Plan

¹² Page 17 of the Plan

¹³ Page 41 of last year's Plan

¹⁴ Page 19 of the Plan

¹⁵ Page 41 of last year's Plan

- 4.20 Combining the ‘increases’ in the additional funding requirement and Government grant levels illustrates the additional cost pressures which have arisen for TfL over the last year:

Req't + grant, £m	2004/05	2005/06	2006/07	2007/08	2008/09
Total 'increase'	53	95	257	291	219

- 4.21 Two other, counterbalancing factors which have arisen in the last six months need to be taken into account:
- An additional £81m in fare income is expected in 2004 (the calendar year) from the fare increase which is to take effect from January 2004
 - The latest forecast for net income from the Congestion Charge Scheme constitutes a £56m reduction from the earlier forecast.

Issue 2: TfL: the bus subsidy

- 4.22 Bus ridership has increased substantially during the Mayor's first term in office. There has been a 19% aggregate growth in the number of passenger trips between 1999/00 and 2002/03 and London on its own has met the Department for Transport's national target for bus usage. Therefore the principal issue is not one of quantity, but, given the funding challenges facing TfL, one of affordability.
- 4.23 As noted above, it is difficult to tell level from the current TfL Business Plan the exact level of bus subsidy required for 2004/05 and beyond. Piecing together the financial data included in the Plan on buses produces the following subsidy levels over the next six years:
- 4.24 In 2000/01 the bus subsidy¹⁶ stood at £73m and for 2003/04 it is forecast to reach £532m. As the above table below, the subsidy is due to exceed £800m in 2004/05 and reach £1bn in 2007/08.

¹⁶ Figures provided by TfL in a letter of 16 October 2003 responding to questions on the review

Table: London bus subsidy: 2004/05 to 2009/10

London Buses, £m	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
Baseline costs: bus network¹⁷	1,307	1,341	1,356	1,360	1,369	1,390
Baseline costs: buses (other)¹⁸	237	237	232	230	235	231
Restoration of bus services¹⁹	20	50	73	94	113	121
Bus safety costs²⁰	3	1	1	1	1	1
Meeting demand: network costs²¹	13	43	94	106	99	115
Meeting demand: garage costs²²	7	4	4	5	4	4
Accommodating growth: bus²³	4	12	20	30	43	57
Service quality: bus network²⁴	10	26	42	57	72	83
Service quality: bus priority²⁵	47	62	62	62	62	62
Total bus costs	1,648	1,776	1,884	1,945	1,998	2,064
Bus income²⁶	(843)	(883)	(909)	(936)	(967)	(989)
Bus subsidy	805	893	975	1,009	1,031	1,075

¹⁷ Page 29 of the Plan

¹⁸ Page 29 of the Plan

¹⁹ Page 30 of the Plan

²⁰ Page 32 of the Plan

²¹ Page 34 of the Plan

²² Page 34 of the Plan

²³ Page 37 of the Plan

²⁴ Page 42 of the Plan

²⁵ Page 42 of the Plan

²⁶ Page 19 of the Plan

- 4.25 TfL concluded an in-depth review of London Buses in July 2003 and made an informal presentation of the results to the Assembly's Transport Committee in September 2003, although the review has not been the subject of an Assembly scrutiny. The report, entitled *The case for investing in London's buses, Presenting the result of the London Buses Strategic Review*, examined the main issues facing London Buses and included reviews looking at:
- Comparable cities
 - Stakeholders' assessment
 - The contracting regime
 - Operational efficiency
 - Service planning
 - Social and economic impact.
- 4.26 It is clear from the report that those consulted during TfL's review view London Buses' performance positively and that comparisons with other major cities are broadly favourable from London's perspective. The future of the subsidy for London Buses in 2005/06 and beyond partly rests on the Mayor persuading Government through SR2004 of the benefits of continuing, and in some cases expanding, the current levels of bus services in London.
- 4.27 Should the subsidy be reduced, TfL has developed, as part of the review, a Strategic Bus Model, which assesses the impact of alternative policies with regard to fares, service levels and costs. Difficult choices might have to be made, but it certainly appears that the average number of passengers per bus journey²⁷ at 14.4 gives some scope for that, although the average does, of course, mask peaks and troughs in demand for buses.
- 4.28 The bus contracting regime has been developed and refined since private sector operators were first able to bid for contracts twenty years ago. In London contracts are normally awarded for five years in the first instance, which means that in any given year approximately one fifth of bus contracts are up for tender.
- 4.29 Over the last three years, the pattern has been one of growth rather than decline for bus operations in London. The costs of growth are apparent from the dramatic increase in bus subsidy. There are also industry-wide factors which have driven up bus operating costs, as well as issues which are particular to London (including restoring drivers' wages to a more competitive level within the London labour market). What are not so apparent, however, are the economies of scale which have been achieved from the expansion of the network.

²⁷ Figure provided by TfL as part of the review

- 4.30 Bus contractors' rates of return were considered as part of TfL's review and were not found to be excessive. However two recent announcements of major London bus contractors' profitability levels might well have an impact on future negotiations:
- In September 2003, Arriva announced that underlying half-year profits were up by 18% and Go-Ahead also announced that it had benefitted from its London bus operation
 - In November 2003, First Group announced that its London bus revenue rose for the six months to 30 September by 23% and that underlying half year operating profits from its bus operation were up by 13%.
- 4.31 This is not to say that it is as simple as engaging in tougher negotiations with bus operating companies and suddenly the problem of the rapidly increasing bus subsidy will be resolved. What it does do, however, is to raise a broader issue of how TfL can capitalise on economies of scale arising from an expanding bus network.

Issue 3: TfL: cost pressures on London Underground

- 4.32 As has already been noted, the understanding when TfL took over the Tube was that additional funding requirements arising from a more detailed review of London Underground's finances would be met by Government. This additional funding requirement²⁸ rises from an expected £45m in 2004/05 to £365m in 2005/06. Key factors include:
- As with LFEPA (see below), there are cost pressures relating to pensions. In the Underground's case the shortfall is running at £65m a year to repay a pension fund deficit of £450m
 - The risk of lower income is given as ranging from £71m to £79m over the next 4 years. A recent TfL submission to this Committee referred to lower fare income being partly as a result of a 'current recession'. The Business Plan refers²⁹ to a 'current economic slow-down'. As developments in the wider economy become apparent, it is possible that these estimates of fare income could change
 - Contractual risks are expected to lead to average annual expenditure of £60m over the next four years. Again, how far actual costs differ from these estimates will become apparent over time.

²⁸ Financial data in this section is taken from pages 17 and 24 of the TfL Business Plan

²⁹ Page 25 of the Plan

Issue 4: TfL: reduced income from the Congestion Charge Scheme

- 4.33 This Committee reported on TfL's contract with Capita for the Congestion Charge Scheme in October 2003. The report did not seek to question the success of the Scheme in reducing congestion in central London. Instead it focused on the particular contractual arrangements TfL had entered into with Capita and whether they provided value for money. The report ended up concluding that the contract had not been a good deal for London and Londoners.
- 4.34 The TfL Board noted³⁰ that, 'due to lower than expected traffic volumes and payment levels', income from the Scheme is forecast to be lower than expected in 2003/04. TfL's first quarter 2003/04 submission to this Committee indicates that net income for the Scheme is forecast to be £56m lower. At the same Board meeting, other costs pressures in the 2003/04 TfL budget of £51m were discussed.
- 4.35 The Board responded by rephasing certain projects and making savings elsewhere. TfL's first quarter 2003/04 submission to this Committee shows reductions in the following budget heads:
- Street Management; a reduction of £50m
 - Under 18 fares; £15m
 - Docklands Light Railway; £10m.
- 4.36 The Mayor and TfL are keen to stress that the rephasing and savings do not represent service cuts. The issue which then arises is that, if TfL can plug a hole of over £100m in its budget without affecting service provision, there must be some degree of 'padding' in the TfL budget to allow this to happen.
- 4.37 On the particular issue of under 18 fares – the concessionary fares schemes for 16 and 17 year olds and which was introduced in the last budget round – it is not clear how this initiative is being advanced if its budget has been revised from £20m down to £5m.
- 4.38 Finally, in terms of future Congestion Charge income, the TfL Business Plan gives³¹ gross income for central London of £192m in 2004/05 and of £184m in subsequent years. Given that TfL's first quarter submission to this Committee forecast gross income of £164m from the Scheme in 2003/04, it would require a significant shift in Capita's performance and the public's attitudes to enforcement to raise another £28m in 2004/05 and another £20m in subsequent years. The proposed western extension of the Congestion Charge zone would also impact on revenue forecasts for the Scheme – the Assembly has been asked to respond to TfL's consultation by 10 December 2003.

³⁰ TfL Board meeting on 29 July 2003

³¹ Page 19 of the Plan

Issue 5: MPA: Step Change Programme

- 4.39 The Step Change Programme is the name given to the work being undertaken to develop plans and options for increasing policing numbers up to the 35,000 level over the next four to five years. This is not to suggest that the decision to increase policing numbers to 35,000 has been taken, as that will be the subject of forthcoming discussions. The Programme's first pilot sites would be introduced in 2004/05 with three community-based teams brought into each borough.
- 4.40 To put Step Change in context, policing numbers reached 29,000 at the end of June 2003. Over the first four year term of the MPA/GLA, there have been 4,500 additional police officers and 1,400 new Police Community Support Officers (PCSOs) recruited, as well as 500 officers released from desk jobs to frontline policing duties.
- 4.41 Step Change is being presented in five options with the MPS's preferred Option being Option 3. Within Option 3 there are six different cost profiles, depending on whether the roll-out period is four or five years and on how many officers and PCSOs are taken on in any given year.
- 4.42 Under Option 3, the additional costs for 2004/05 range from £28m to £39m and for 2005/06 from £101m to £119m. By 2009/10, the first full year in which there would be the total policing complement under each of the cost profiles, costs would rise to £358m. At present, the MPA has made no budgetary commitment to the Step Change Programme.
- 4.43 Although it is hoped that there could be additional financial support from the Government for 2005/06 and beyond, there has been no indication that Government is in a position to fund the Programme in 2004/05.
- 4.44 One of the challenges as the Step Change Programme progresses will be to map out and achieve the 'hidden' savings described in the Executive Summary of the MPS's Step Change Business Case³²:
- "It is important to note that significant 'hidden' efficiency gains are included in these costings. For example, fleet expansion is not simply a scale-up based on current ratios of vehicles to officers."
- 4.45 One of the five elements of growth under Step Change is 'to address other policing demands of the MPS/MPA *Towards the Safest City Strategy 2003-2005* e.g. gun crime, terrorism et c.'. Given that one of the key aspects of Step Change is community-based policing and, as part of that, ring-fenced police teams at ward level, it is not yet apparent how Step Change can at the same time address more serious types of crime including terrorism which often transcend national boundaries, never mind Borough or ward boundaries.

³² Paragraph 15.4 of the Step Change Programme: Business Case for Growth in the Metropolitan Police Service – Executive Summary

- 4.46 Step Change includes plans for another 1,500 PCSOs to be recruited. Press reports, citing anecdotal evidence, have spoken of problems integrating PCSOs into the force. The University of Portsmouth is undertaking an evaluation of PCSOs in the MPS and this will inform the roll-out of Step Change with regard to PCSOs.
- 4.47 The perception is that policing already has more than enough targets to work towards. For example, the MPA/MPS Policing and Performance Plan 2003/04 contains a wide range of targets, including:
- An increase of officers in visible posts and achieving a certain satisfaction rate for foot patrols
 - Reductions in street crime, burglary and autocrime
 - Targets aimed at increasing representation of London's diverse groups in the MPS.
- 4.48 While not in itself a target, the MPS's Operational Policing Measure (OPM), which is currently being developed will collate substantial amounts of data on the time spent by police officers on certain types of activity. This in turn will inform resource allocation.
- 4.49 The MPA Treasurer informed the Committee on 6 November that creating the link between policy and expenditure was not yet fully synchronised but was developing. One of the difficulties lies in there being different timetables at a local/regional level and at a national level: the Mayor's deadline for budget submissions is the end of October each year and the Home Office's deadline is at the end of November. However the MPA did use the corporate strategic framework, *Towards the Safest City*, in assessing which were the priority areas for funding as growth items in the 2004/05 budget submission to the Mayor.
- 4.50 The Committee asked MPA and MPS representatives in June and November meetings about the possibility of developing an output performance measure which would help to demonstrate not only the value of additional policing numbers but also of the existing police resources. Such a measure could be along the lines of 'arrests per Borough officer per month'.
- 4.51 The performance measure would seek to complement existing measures such as visibility and crime reduction. The benefits it could bring would be to:
- Demonstrate to the public the efforts the police are making on their behalf
 - Add a specific activity measure which police officers can influence to the existing broader targets of visibility and crime reduction.

Issue 6: MPA: managing police officer overtime

- 4.52 MPA and MPS updated the Committee at its 6 November meeting on police officer overtime. The latest forecast is a £5m overspend on a revised budget of £104m for 2003/04. The budget has been increased by £6m to £104m as a result of virements from civil staff pay budgets. The virements had been made at a local level but had not been reported 'up the line' to senior MPS officials and the MPA in the manner required under the scheme of delegation.
- 4.53 This raises the issue of the extent to which MPS budget holders at a local level are following agreed procedures for virements. There is also the wider issue of devolving police budgets. Although 43% of the overall MPS budget is devolved, there is still some way to go before a fully devolved budget process, linked to a devolved decision making process, is introduced.
- 4.54 From April 2003 police pay budgets were devolved to 15 'locations' (11 of which are borough command units and 4 of which are other types of unit). A paper to the 23 October MPA Finance Committee records the decision not to extend the devolution of police pay in 2003/04 but to look at options for April 2004, including doubling the number of 'locations' to 30 or devolving police pay budgets across the entire force. The paper records that 'aligning the pay budget against the deployment plan has proved very challenging as the organisation is growing'.
- 4.55 On the particular issue of police overtime, the problem is compounded by there being national targets for reductions in police overtime. For 2004/05 a reduction of 5% has been agreed with Her Majesty's Inspectorate of Constabulary (HMIC) and for 2005/06 a reduction of 6%. These targets are up on the 4% reduction set for 2003/04, which it is clear that the MPS will not meet.
- 4.56 The status and implications of these targets are, quite appropriately, the subject of robust debate between the MPA and the MPS. The MPS Deputy Commissioner told the Committee that he viewed the virements as a 'legitimate management decision'. This is in keeping with the principle of devolved budgets, but conflicts with the imposed national targets aimed at reducing overtime.
- 4.57 The Deputy Commissioner also made the point that overtime was often needed in specialist crime units to avoid boroughs losing out by having to lose borough officers at short notice to other units.
- 4.58 The Committee will put further questions on the police overtime budget to MPA and MPS representatives at its 7 January 2004 meeting.

Issue 7: MPA: civil staff posts

- 4.59 Given that the virements were from civil staff pay budgets to police officer overtime budgets, the question arises as to the current position of civil staff in the MPS. An underspend of £8m is forecast in 2003/04 for civil staff pay budget, which would indicate unfilled civil staff posts running into the hundreds. So either the civil posts are required (i.e. to support police officers and prevent officers having to undertake desk jobs) and efforts should be made to fill them or the posts are not required (i.e. the funds are better spent on police officer overtime) and their status should be reviewed.

Issue 8: LFEPA: modernisation costs

- 4.60 The modernisation reforms facing fire authorities are the most fundamental and far-reaching in recent memory, extending to all the principal aspects – particularly firefighter’ shift patterns and crewing arrangements – of authorities’ work.
- 4.61 LFEPA’s submission to the Committee on modernisation issues refers to “the need to develop more sophisticated risk based information which can be used to provide evidence for the more flexible arrangements it is hoped to see in the future”.
- 4.62 This sort of risk based approach, couple with flexible working arrangements, will be key to maximising the savings from modernisation. In the short term, LFEPA is facing modernisation costs arising from implementing reforms. LFEPA’s 2004/05 budget submission to the Mayor contains an additional £4m to cover modernisation costs. The figure includes a notional allocation of £2m for overtime and £2m for allowances. Additional supporting information will be provided during the budget setting process.
- 4.63 LFEPA’s submission to the Committee on London Resilience makes reference to flexible crewing as a means of containing Resilience costs. The Authority’s 2004/05 budget submission contains £3.7m of savings relating to flexible crewing. The balance between the savings generated by modernisation and the ‘start-up’ costs it generates will be an important consideration in setting the LFEPA budget.

Issue 9: LFEPA: expenditure on pensions

- 4.64 LFEPA’s budget submission records an unusually high level of growth (11%) in pension expenditure, partly because a higher than normal level of retirements is expected. One of the problems facing LFEPA is that Government grant for fire authorities does not make specific provision for pensions.
- 4.65 At the Committee’s 6 November meeting, LFEPA representatives informed Members that £1m of the funds being drawn from the pension reserve to fund expenditure on pensions in 2004/05 could be rephased to 2005/06 and beyond. However the issue of the unusually large number of retirements in 2004/05 has to be addressed.

Issue 10: LDA: delivery of the New Programme

- 4.66 With the Government's phasing out of the Single Regeneration Budget (SRB), the New Programme, also known as the single pot, forms 50% of the LDA's budget. There are two main strands to the Programme: regeneration and business support.
- 4.67 The Assembly's Economic and Social Development Committee reported on regeneration funding and co-ordination issues in March 2002. The report, *Rebuilding London's Future*, was followed up by that Committee in June 2002.
- 4.68 The report recommended that the LDA create a regeneration resource library. LDA officers have confirmed that an initial budget allocation was made in 2002/03 but that the main financial commitment for the project would arise in 2003/04. LDA officers have also informed the Economic and Social Development Committee that the LDA three year forecast of budgetary commitments included projections of expenditure on the project.
- 4.69 The report also made a recommendation relating to supporting pilot projects in suburban areas. LDA officers confirmed at the time that the Agency had ring-fenced £2.5m in its budget for boroughs not in receipt of regeneration funding. Following a review in October 2002, the LDA launched a new programme – LDA2.
- 4.70 LDA2 does not have a specific allocation for work outside boroughs receiving Neighbourhood Renewal Funding (NRF) but LDA officers have confirmed that projects are carefully selected to ensure a balance is maintained. Officers have also confirmed a combined funding allocation of £6.3m during 2003/04 to areas outside NRF boroughs. However it still remains unclear exactly what funding non-NRF boroughs have received or are to receive.
- 4.71 The Economic and Social Development Committee wishes to establish the level of financial commitments for regeneration in both these areas (the resource library and the support for pilot projects in suburban areas) in the LDA's 2004/05 budget.

Issue 11: LDA: tourism funding

- 4.72 The LDA is investing £19m in tourism initiatives in 2003/04, comprising £4m for the Visit London, £3m for the Tourist Action Plan and £12m for the Tourism Industry Recovery Package. The funding includes £0.4m for a ticket-only Trafalgar Square concert and £0.8m for a New Year's Eve event to see in 2004. This Committee has asked the LDA for details of any evaluation of its tourism programme to demonstrate how the Agency has achieved best value from its investment in tourism.

Issue 12: GLA issues

Staffing issues

- 4.73 The Mayor's draft GLA budget submission for 2004/05 equates to a standstill precept of £19.9m in 2004/05. This meets Option 1 – the option involving the highest level of savings – in the Mayor's Budget Guidance.
- 4.74 The submission states³³ that "the reductions include an increase in the vacancy margin from 2.5% to 4.5% which is considered to be the maximum level sustainable within the Authority". The current vacancy margin is estimated to be approximately 5%.
- 4.75 The increased vacancy margin will save³⁴ the GLA £580k in 2004/05. This forms one third of the total GLA savings package³⁵ of £1.8m.
- 4.76 The vacancy margin of 4.5% assumes a turnover rate of approximately 15% and also that vacant posts will go, on average, unfilled for four months a year. This raises two possibilities:
- There is sufficient slack in the GLA's staff establishment to allow a high vacancy margin to be applied, raising questions about staffing levels
 - GLA staff who remain in the organisation will be placed under increased pressure by the high vacancy margin, as they will have to cover unfilled posts (agency staff cannot always function at full capacity in a new post from the outset).
- 4.77 Members will keep GLA staffing arrangements under review, particularly how the increased vacancy margin impacts on the workloads of existing staff.

Policy and programme areas

- 4.78 A key GLA deliverable³⁶ for 2003/04 is the "development and implementation of other strategies, in particular the environment strategies relating to air quality, biodiversity, energy, noise and waste".
- 4.79 The energy and noise strategies are scheduled to be issued in their agreed forms after the publication of the London Plan. It has recently emerged that it is highly likely that the London Plan will not be published until January 2004. This gives limited time between the New Year and the June 2004 GLA Elections for the Mayor's energy and noise strategies to be issued. The Committee will keep the delivery of these two strategies under review.

³³ Page 13 of the Mayor's submission

³⁴ Page 56 of the Mayor's submission

³⁵ Page 58 of the Mayor's submission

³⁶ Page 23 of the Mayor's submission

- 4.80 The Committee has submitted a written request for details of the implications of the proposed £100k savings for the housing and homelessness programme³⁷. The written response will be considered by the Committee when it comes to look at the Mayor's Consultation Budget in December.
- 4.81 The Notting Hill Carnival Review Group, chaired by the Mayor's Policy Director for Equalities and Policing, was scheduled to have released its final report on the Carnival (including details of the new route) in September 2002; this was re-scheduled to late June 2003, then September 2003. To date, no report has been published.
- 4.82 The GLA's Executive Director of Policy and Partnerships told the Committee that consulting the Arts Council and the Health and Safety Executive (HSE) has contributed to the delays with the report and that the intention is to release it in January 2004. The Committee has requested further information on the exact causes of the delay and the response to this request will be considered when Members come to look at the Mayor's Consultation Budget in December.
- 4.83 Savings of £162k are proposed for Mayor's environment programme³⁸ in 2004/05. The Assembly's Environment Committee will review the implications of this proposal.

Procurement

- 4.84 This Committee issued its report *Review of GLA Procurement* in May 2003. The report raised issues about how the GLA secures value for money from procurement.
- 4.85 In October the Mayor issued a new draft of his Contract Code for stakeholder comments. The Assembly's response focused on the recommendations made in this Committee's May 2003 report.
- 4.86 The Committee notes that there still appear to be an unusually high level of retrospective approvals and waivers of the Contracts Code. In the five Mayoral decision lists issued between June and November 2003, there were 15 retrospective approvals and 15 waivers of the Contracts Code.

³⁷ Page 56 of the Mayor's submission

³⁸ Page 57 of the Mayor's submission

Equalities

- 4.87 The Mayor has developed an innovative approach to equalities by linking equalities issues to the annual round of budget submissions. The success of this approach was recognised by Audit Commission inspectors awarding the GLA equalities 'service' two stars – the highest yet recorded by a local authority. This Committee supports the work being undertaken and the efforts being made by the Mayor's Policy Director for Equalities and Policing in ensuring that:
- GLA Group authorities do all they can to combat age discrimination; this could be done by setting targets relating to age profile
 - There is greater consistency between the equalities submissions made by the GLA Group authorities, including calculations of the level of resources devoted to equalities.