LONDONASSEMBLY

Budget and Performance Committee

Response to the Mayor's Budget Consultation Document 2016-17

January 2016

Budget and Performance Committee Members

John Biggs (Chair)	Labour
Stephen Knight (Deputy Chair)	Liberal Democrat
Gareth Bacon	Conservative
Jenny Jones	Green
Joanne McCartney	Labour
Valerie Shawcross CBE	Labour
Richard Tracey	Conservative

About the Budget and Performance Committee

The Budget and Performance Committee scrutinises the Mayor's annual budget proposals and holds the Mayor and his staff to account for financial decisions and performance at the GLA. The Committee takes into account in its investigations the cross cutting themes of: the health of persons in Greater London; the achievement of sustainable development in the United Kingdom; and the promotion of opportunity.

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Executive Summary

In his draft budget, the Mayor has shown his intention to meet his manifesto commitment to cut council tax by 10 per cent over this term of office. He has prioritised this manifesto commitment over other commitments and targets, such as delivering 250,000 apprenticeships starts by the end of his term, and CO2 reductions through the RE:NEW programme. Making such decisions is the role of the Mayor, much as it is our role as the Budget and Performance Committee to consider their implications. We note that the Mayor's decision to cut council tax in his final budget will have a significant impact on the ability of future Mayors to fund new programmes.

The next year will bring challenges and opportunities for London's police and fire services. Despite receiving a better-than-expected funding settlement in the Spending Review, the Mayor's Office for Policing and Crime and the Metropolitan Police Service are still facing pressures to find efficiencies. In order to maximise resources for frontline policing, they must be successful in implementing their technology and commercial strategies, as well as make the case for London during the Government's ongoing police funding formula review. As Government funding for fire and emergency services reduces in 2017-18 and 2018-19, the next Mayor will have to consider whether it is possible to continue to protect funding for the fire service at the expense of other functional bodies.

The impact of the Government's funding cut on the operations of Transport for London (TfL) is still uncertain, but we do know it will have implications for its investment programme. The revenue cut compounds TfL's existing problem of managing the five-year delay and extra costs to its Sub-Surface Upgrade Programme. TfL must find sufficient savings to safeguard service levels and ensure that its core investment programme is delivered under existing planning assumptions.

We have concerns with regards to the Mayor's spending on housing and regeneration. We note that the ways in which the Mayor can invest in affordable housing are changing, which may have consequences for the number of affordable homes built over the 2015 to 2018 programme.

Finally, we conclude that the London Legacy Development Corporation (LLDC) is lacking in transparency about the Olympic Stadium, both with regards to its contract with West Ham United Football Club, and about the total costs for transforming it. We will continue to monitor these issues and pressure the LLDC to limit the need for any further unnecessary expenditure.

1. Introduction

Context

1.1 This is the Budget and Performance Committee's response, on behalf of the London Assembly, to the Mayor's Budget Consultation Document for 2016-17. It draws on the Committee's previous work on the budget for the GLA Group, including our November 2015 meeting with the Mayor's Chief of Staff and the Executive Directors of the GLA. That meeting, and the core GLA's draft budget proposals, informed the publication of the Committee's Pre-Budget Report in December 2015.[1]

1.2 Since then, we have held three further budget meetings with the GLA's functional bodies (on 5 and 7 January) and the Mayor (on 12 January). In writing this report, we have considered the evidence presented at those meetings, and the response we received to our Pre-Budget Report.[2] This report reiterates the key issues we identified in that report, and provides an analysis of the responses to those areas of concern. It makes several recommendations to inform future budget processes. Finally, this report is intended to inform the wider Assembly's scrutiny of the Mayor's final budget, and provide context for Members questioning him at their meetings on 27 January, at which point the Assembly can amend the budget by a simple majority, and on 22 February, when it can amend the budget with a two-thirds majority.

[1] The Budget and Performance Committee Pre-Budget Report, 10 December 2015.
[2] Mayor's Response to the Pre-Budget Report, 11 January 2015.

2. The council tax cut and manifesto commitments

Key issues identified in our Pre-Budget Report

2.1 To fulfil his 2012 manifesto commitment to cut his share of council tax by 10 per cent over this Mayoral term, the Mayor intends to reduce Band D council tax by £19 in 2016-17. This is a significant reduction, as in the last three years the annual cut has not exceeded £4. The GLA expects the reduction in the Band D council tax to cost around £50 million each year in lost income.[3]

2.2 While the Mayor intends to implement his manifesto commitment to cut council tax, he may not be able to achieve all his other commitments. For example, his manifesto contained a commitment to create 250,000 apprenticeship opportunities in this Mayoral term, but the latest figures show that only 141,640 apprenticeships have been created. We understand that the GLA is holding discussions with the London Enterprise Panel to discuss ways to boost these numbers in the next Mayor's term, but we question whether they should have been held sooner to support the creation of more new apprenticeship starts during the existing Mayor's term.

Our recommendations and the evidence we received

Income from council tax and business rates

2.3 Having noted that the GLA's revenue from council tax and business rates is usually higher than forecast, our Pre-Budget Report recommended that the Mayor should identify priority areas that might receive funding should this be the case for 2015-16. In his response, the Mayor agreed and noted that his Final Draft Consolidated Budget will set out how any additional income from these sources will be utilised. For example, we would welcome further clarity about how any surplus in council tax and business rates revenue could be allocated towards climate change programmes, such as RE:NEW and RE:FIT, to reduce CO_2 emissions in homes and offices.

2.4 A large cut in the overall precept in any one year has implications for future years. When determining the GLA Group's council tax requirement, the Mayor has a statutory duty to distinguish between the amounts allocated to policing and to other services. For the GLA, a referendum is required if the increase in either or both of the policing or other services elements of council tax is two per cent or higher compared to the previous year.[4] This means that, should the next Mayor wish to, the maximum they could increase Band D council tax for non-policing services in 2017-18 without triggering a referendum would be

[3] The Greater London Authority Consolidated Budget and Component Budgets for 2015-16, March 2015, page 4.
[4] Consultation budget, December 2015, page 81.

£1.38 per Londoner per year.[5] On this basis, it would take more than 10 consecutive years of increases to return other services Band D council tax to its 2015-16 level in cash terms.[6] The Budget Consultation Document recognises that current referendum thresholds have unique implications in London and on the ability of the Mayor to raise council tax. It states the GLA "will wish to lobby the Government to introduce a monetary as well as a percentage cap" for the other services element of council tax (perhaps £5).[7] At our meeting, however, the Mayor suggested it should be "up to a future Mayor" to pursue this change.

2.5 We think introducing a monetary cap for the other services element of council tax is a sensible suggestion. It should not be that the relatively small number of taxpayers in the City of London area —who only pay the other services element of council tax—restrict the flexibility for the Mayor to set a budget across the whole of London. A modest change to the referendum rules would continue to offer some protection to these taxpayers and would also be consistent with central government policy: as part of the Spending Review, the Government gave additional flexibility to the 10 Police and Crime Commissioners in England with the lowest precept levels each year, so that they can raise their precept by up to £5 per year per band D household.[8] We ask the Mayor to lobby the Government on this issue as his draft budget suggests before he leaves office.

Apprenticeships

2.6 At our 12 January meeting, the Mayor acknowledged that his various apprenticeship programmes so far have succeeded in achieving the "low-hanging fruit to push up the apprenticeship numbers."[9] There is some way to go meet the manifesto target. In our Pre-Budget Report, we recommended that the Mayor should identify what funding is available to support apprenticeships in 2016-17. The Mayor's response did not do this, but his consultation budget does state that an "estimated budget of £1.8 million will be carried forward in 2016-17 to continue to the Employer Led apprenticeship programme."[10] Given the limited success of the Mayor's various programmes to date in creating the necessary number of apprenticeships, it is clear that this £1.8 million will not be enough to reach the Mayor's manifesto commitment on new apprenticeships.

Savings and efficiencies

2.7 Prior to the 2012 Mayoral election, the Mayor said he would cut council tax by finding efficiencies across the GLA Group.[11] The Budget Consultation Document states the core

[5] I.e. a 1.99 per cent increase in the unadjusted amount of council tax for 2016-17 (£69.21) would equal £1.38.
[6] Assuming "other services" Band D council tax increases by 1.99 per cent each year.
[7] Consultation budget, December 2015, page 89.
[8] Police Grant Report England and Wales 2016/17: Written statement, 17 December 2015.
[9] The Mayor, speaking to the Budget and Performance Committee, 12 January 2016.
[10] The Mayor's Consultation Budget 2016-17, page 18.
[11] Cutting waste and council tax, Boris Johnson manifesto for 2012, page 15.

GLA will find savings of £9.2 million in 2016-17.[12] It does not, however, explain where these savings will come from. The Draft Consolidated Budget should make this clear, so Members have a fuller picture of the Mayor's plans before they are asked to vote on his budget.

Conclusions

2.8 The Mayor has decided to prioritise his manifesto commitment to cut council tax over other commitments, such as delivering 250,000 apprenticeships starts by the end of the term. As well as missing his commitment on apprenticeships, he has missed some of his strategic targets, particularly around climate change. For example, the Mayor introduced a target to save 118,821 tonnes of CO2 over 2009-18 through the RE:NEW programme. The latest GLA monitoring report highlights this with a Red risk rating, with only 31,156 tons of CO2 saved through the second quarter of 2015-16.[13] We recognise that making decisions about what commitments and targets to prioritise is the Mayor's job; it is the Assembly's job to consider the implications. In this case, it is clear that the Mayor's decision to cut council tax in his final budget will have a significant impact on the ability of future Mayors to fund programmes to meet their objectives.

Recommendation 1

The Mayor should commit to lobbying the Government before he leaves office to introduce a monetary cap for the non-policing element of council tax as his budget suggests might be necessary in the future.

Recommendation 2

The Final Draft Consolidated Budget should include an explanation of how the core GLA will make £9.2 million of savings in 2016-17 and which services will be affected.

[12] The Mayor's Consultation Budget 2016-17, page 73.
[13] Greater London Authority Finance and Performance Monitoring Report. Quarter 2: 2015-16.

3. Police and Fire

Key issues identified in our Pre-Budget Report

3.1 The Mayor's Office for Policing and Crime (MOPAC) and the Metropolitan Police Service (Met) have reduced some costs over the current Police and Crime Plan period, but the savings have not always been those that were planned. Some resulted from failing to meet organisational objectives, such as maintaining 32,000 police officers. As the Government has announced its decision to protect police spending over the Spending Review period to 2019-20, the Met's financial position looks less gloomy than previously expected. Nevertheless, the Met will still need to find savings to meet new cost pressures as they emerge. It also has a long way to go to implement existing strategies and develop a new operating model for what it should look like in 2020. This will require a sustained effort to manage change effectively.

3.2 The Mayor has made a commitment to maintain LFEPA's overall funding for 2016-17, but the London Fire and Emergency Planning Authority (LFEPA) still needs to find significant savings to address its budget gap of £6.4 million. Both the Mayor and the Fire Commissioner believe that the best way to address this shortfall is for the Fire Brigade to decommission 13 of its fire appliances. LFEPA, however, would prefer to find the savings through changes to crewing arrangements.

Our recommendations and the evidence we received

Police

Savings

3.3 In our report we recommended that the Mayor explicitly sets out the areas in which MOPAC expects to make savings in 2016-17, and what impact this will have on policing in London. Although the Deputy Mayor for Policing and Crime has noted that the Met had been "gifted a much better settlement than we could have expected," there are still savings to be made. [14] The draft budget provides details on the Met's budget pressures such as inflation (£25 million), and additional costs resulting from the Government's introduction of the single-tier pension system (£47 million) in 2016-17. MOPAC has identified cost reductions for the next three years to meet these pressures. These include police staff and police community support officer efficiencies of £35 million in 2016-17, £36 million in 2017-18, and £31 million in 2018-19. On 12 January, the Mayor agreed that further savings in the Met's back-office, such as reducing the number of police staff, must not result in police officers back-filling posts. He added that future challenges facing the police, such as tackling the rise of online crime, will blur the lines of front and back-office roles.

[14] Stephen Greenhalgh, speaking to the Budget and Performance Committee, 5 January 2016.

The Met's National and International Capital City

3.4 One area that is still of concern is the Met's National and International Capital City (NICC) grant that it receives for the unique challenges it faces in policing London. In December, the Deputy Mayor for Policing and Crime stated he hoped the NICC grant in 2016-17 would better compensate the Met for these costs.[15] The Met says these additional duties cost £340 million per year, but it currently only stands to receive £174 million in 2016-17, the same amount it received in 2015-16. It will be for the next Mayor to make a better case for securing funding for London's unique policing responsibilities when the Home Office returns to its police funding formula review later this year.

Performance objectives

3.5 In our Pre-Budget Report, we asked the Mayor to explain the key performance deliverables for MOPAC and the Met in 2016-17. While these may be superseded once the next Mayor publishes a new Police and Crime Plan, MOPAC and the Met should not be left without objectives and deliverables between the end of this Mayoral term and the next plan – we expect this to be published in draft later this year. In his response to our Pre-Budget Report, the Mayor did not commit to updating the key deliverables for the Met and MOPAC in his budget 2016-17, as he has stated he will for LFEPA. However, the Deputy Mayor for Policing and Crime told us that he shared our concern that MOPAC and the Met would be operating in limbo in the absence of any performance objectives, stating "you are right to say that we do not want to have a sense of a rudderless ship going into an election."[16] We welcome his offer to include a strategic ambition for the Met around crime and confidence in its early annual report, expected in spring.

3.6 We also discussed progress the Met is making towards meeting one of its key performance targets: to increase public confidence in the police by 20 per cent by March 2016.[17] The consultation budget presents a misleading picture of how public confidence in the police has changed. It states confidence has increased from 62 per cent to 67 per cent.[18] In fact, the independent Crime Survey for England and Wales —which the Mayor chose as the measure for this target— shows confidence remains unchanged since the March 2012 baseline. The 67 per cent figure is from a different source: MOPAC's own Public Attitudes Survey. At our meeting, the Met acknowledged it has struggled to increase public confidence.

Financial reporting

3.7 We asked MOPAC to ensure future financial reports to the Assembly include performance against planned savings as they did during 2014-15. When questioned about whether

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[15] Sir Bernard Hogan-Howe, MPS Commissioner and Stephen Greenhalgh, Deputy Mayor for Policing and Crime, speaking to the Police and Crime Committee, 17 December 2015.

[16] Stephen Greenhalgh, speaking to the Budget and Performance Committee, 5 January 2016.

[17] To meet the target, the proportion of Londoners thinking the police are going a "good or excellent job" would need to increase from 62 per cent to 75 per cent.

[18] Consultation budget, December 2015, page 23.

MOPAC and the Met achieved particular targets in the current savings plan, the Deputy Mayor for Policing and Crime conceded that the Met was behind in certain areas, such as premises costs. He noted that "sometimes you do not deliver the things that you plan, but the principles from which you make the savings remain the same and in time we will achieve those savings," albeit it over a longer period.[19] Knowing exactly how the Met makes savings is an important part of holding the force to account. As MOPAC and the Met's auditors highlighted in July 2015: "the distinction should be made between not exceeding the budgetary constraints in any given financial year, and the genuine achievement of planned transformative savings in the year as part of a strategic change programme."[20] We are glad the Mayor has accepted our recommendation and that MOPAC will report performance against planned savings again in the future.

Technology strategy

3.8 Last year, MOPAC and the Met indicated[21] they intended to publish a revised technology strategy in January 2016. In our Pre-Budget Report, we requested that the strategy identifies areas in which the Met intends to find savings, as well as provide confirmation that its Digital Policing Programme is on track. MOPAC and the Met agreed to our request in principle. They also highlighted the timing for the revised strategy is slipping. The Met's transformation plans rely heavily on successfully implementing the technology strategy: further delays will have knock-on effects to improving performance and reducing costs. We await the "revised timeline" MOPAC says it will provide us later this month setting out the latest position of the strategy.

Commercial strategy

3.9 MOPAC and the Met are pressing ahead with their commercial strategy. Our 2015 report, *To Protect and Save*[22], presented our concerns about the Met's lack of the commercial skills to manage contracts successfully. At our meeting, we asked them about their recent deal to outsource finance, procurement and human resources services to Shared Services Connected Limited (SSCL).[23] The deal will last for seven to ten years, and saw almost 450 posts transfer from the Met to SSCL in October 2015; eventually these posts will move outside of London. While the Met thinks the deal will save £106 million over its lifetime, we were concerned to see that the Department for Business, Innovation and Skills (BIS) has recently cancelled its contract with SSCL for similar services, citing that it was "no longer viable".[24] The Deputy Mayor for Policing and Crime acknowledged we are "right to be watchful" about the SSCL deal: we will continue to keep a close eye on this and other developments in the Met's commercial strategy.

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[19] Stephen Greenhalgh, speaking to the Budget and Performance Committee, 5 January 2016.
[20] MOPAC and MPS Audit Findings Report 2014-15, Grant Thornton, July 2015.
[21] MOPAC/MPS Audit Panel, Item 5 (Appendix 1).
[22] The Budget and Performance Committee, To Protect and Save, September 2015.
[23] SSCL is joint venture between French outsourcing firm Sopra Steria and the Cabinet Office.
[24] How the SSCL contract debacle shows government departments aren't pulling in the same direction, Computing.co.uk, 11 September 2015.

Fire

3.10 The Mayor's draft consultation budget proposes to maintain LFEPA's funding at its 2014-15 level of £382 million each year up to and including 2018-19. Over this same period, the Government's funding for LFEPA will reduce by £39 million (28 per cent), with the most significant impact in 2017-18 and 2018-19. The Mayor's draft consultation budget suggests that this growing funding gap could be filled by increasing LFEPA's share of business rates.[25] It should be noted that by increasing LFEPA's share of retained business rates, the funding available to the GLA's other functional bodies is reduced.

Conclusions

3.11 The financial position of MOPAC and the Met is much brighter than it was before the Chancellor's Spending Review announcement. But growth pressures mean that the Met will need to continue to find efficiencies and reform its back-office in coming years if it wants to maintain police officer numbers and current levels of neighbourhood policing. Successfully implementing its technology and commercial strategies will be vital parts of this. When the Home Office revisits the police funding formula review later this year, there will be another opportunity for MOPAC and the Met to make a better case for funding the national and international capital city responsibilities that the Met undertakes. The next Mayor may want to build on the work the Met has done so far in this area.

3.12 The big decisions about the future of fire and emergency services in London do not need to be made now, but will have to be addressed over the next 12 months as the sixth London Safety Plan is drawn up. Government funding for fire and emergency services will reduce significantly in 2017-18 and 2018-19 making it increasingly difficult for the next Mayor to continue the policy of protecting fire and emergency services from funding cuts. The next Mayor will have to decide the extent to which they prepared to provide additional funding for the London Fire Brigade at the expense of other functional bodies and the extent to which they will require LFEPA to reform how it delivers its services and operate with a reduced budget.

Recommendation 3

The Mayor's Final Draft Consolidated Budget should report against its public confidence objective using the measure the Mayor chose in his Police and Crime Plan – the Crime Survey for England and Wales.

[25] This is government funding through the Revenue Support Grant and does not include specific grants. LFEPA's received £139 million of funding from the RSG in 2014-15 and is forecasting receiving £100 million in 2018-19.

4. Transport

Key issues identified in our Pre-Budget Report

4.1 In November, the Government announced that TfL's revenue grant will be cut to zero in 2018-19. This reduction in funding has consequences for TfL's capital investment programme, leaving it with less funding than expected for infrastructure development. TfL is going to have to generate more commercial income, and/or find new operational savings to manage reductions to its level of revenue funding from 2016-17.

4.2 Compounding the loss of its Government revenue grant, TfL is also facing a £1 billion unexpected cost and a five-year delay to its Sub-Surface Upgrade Programme (SSUP). Some of TfL's planned capital investment programmes may have to be deferred or cut to cover the extra cost. The delay will also limit TfL's ability to increase its fares income, and passengers will have to wait longer to see service improvements. There will also be some loss to London's wider economy.

Our recommendations and the evidence we received

Government grant cuts

4.3 On 7 January 2016, the Commissioner for Transport told us that "we were very disappointed with where this [Spending Review] leaves us".[26] TfL will receive £2.8 billion less (20 per cent) in government funding between 2015 and 2021 than it had forecast in last year's business plan and this will have implications for TfL's investment programme. As TfL uses revenue funding to subsidise its capital programme, and based on spending plans prior to the spending review, TfL estimates the cut will leave it with £300 million (15 per cent) a year less to spend on capital projects over the next five years.[27]

4.4 TfL is still working out how it is going to manage the funding cut so it currently does not know how it will affect passengers and its investment programme. The Commissioner told us that his objective is to "do absolutely everything to avoid service impacts for our passengers or impacts for the core of our investment programme".[28] TfL is looking to close the funding gap in three ways as its Chief Financial Officer stated:

[26] Budget and Performance Committee meeting, 7 January 2016.
[27] TfL's Chief Finance Officer explained that TfL would have roughly £1.7 billion to spend on capital each year over the next five years compared to £2 billion prior to the Autumn Statement announcement —7 January 2016.
[28] Budget and Performance Committee meeting, 7 January 2016.

We have a cash problem and we can deal with it in three ways. The first is to improve your operational results. The second is to value-engineer existing capital projects that are in flight. The third - and there is a deliberate order here - is to consider whether or not you have to defer or cancel new projects. That is the last resort.[29]

4.5 The Mayor told us that he "is absolutely confident that with the funding we have we can get on with all the capital infrastructure programmes that matter to Londoners".[30] The Mayor and TfL officers are in agreement that all major investment programmes will be protected, but the Consultation Budget sets out over £1 billion of programmes that TfL has adopted since it set its last business plan in December 2014, which are now under review. They include TfL's Growth Fund, station accessibility and £100 million of planned expenditure on cycling infrastructure.

Sub-Surface Upgrade Programme delays (Bombardier contract) and cost overruns

4.6 At our 12 January meeting, the Mayor told us that he takes "all responsibility for everything that has happened on [his] watch" including the SSUP.[31] The Mayor agreed with the Deputy Mayor for Transport that TfL has been taking the wrong approach with its signalling upgrade programmes.[32] Where other world metros have large in-house teams doing vast amounts of the signalling work and only rely on suppliers to build the technology to very specific, predetermined specifications, TfL relied on Bombardier to provide an end-to-end solution. As the Deputy Mayor for Transport explained, even now, the market is not mature enough to take this approach and it certainly was not five or 10 years ago. We heard from TfL that it has taken this on board and is taking a far more hands-on approach with the new contract. It has assumed responsibility for the delivery of some key elements of the programme allowing the new contractor to focus on its core strength — the signalling system.

4.7 Delays and cost increases will have significant consequences for both passengers and TfL's capital programme. While the upgrade should eventually increase capacity on the Sub-Surface lines by 40 per cent, the five-year delay will make the tube more congested than planned between 2018 and 2023 and reduce TfL's forecast fares revenue. Equally significant, the increase in capital expenditure will mean that £1.15 billion of previously planned capital programmes will now have to be delayed, cancelled or scaled down. As TfL is still developing its latest investment programme, officers were unable to tell us in January which capital programmes would be affected. The Commissioner explained that TfL was reviewing the planned expenditure and timings of projects that are not yet under contract to assess how they fit within the current business planning period. The impact of

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[29] Ian Nunn, speaking to Budget and Performance Committee, 7 January 2016.
[30] Budget and Performance Committee meeting, 12 January 2016.
[31] Budget and Performance Committee meeting, 12 January 2016.
[32] Deputy Mayor for Transport speaking at the Budget and Performance Committee meeting, 7 January 2016 and the Mayor speaking at the Budget and Performance Committee meeting, 12 January 2016.

the SSUP problems for TfL's other investment projects will therefore not be known until March at the earliest.

Financial reporting

4.8 TfL's new Chief Financial Officer told us that he believed TfL needed to improve its financial reporting:

> *The financial reporting, such as it is today, is not as good as it should be for an organisation of TfL's size and importance. In particular, we talked earlier about the separation of the operating business from the capital business, but also getting away from this rather hybrid cash accounting that we have to more conventional accounting in both the monthly and the quarterly reporting. We need to improve the numbers but we also need to improve the presentation and commentary very significantly as well.*[33]

4.9 As TfL's financial pressures intensify, it will be particularly important to understand how it is identifying new savings. TfL must be clear about the extent to which these are genuine efficiencies, rather than cuts to services. In our Pre-Budget Report we recommended that in its next business plan, TfL should reset its savings counter to zero and focus on achieving short-term annual targets. We were pleased to hear in our January meeting that the Commissioner agrees with our recommendation and that this advice was "absolutely spot-on."[34] We are also pleased that TfL and the Mayor have agreed to implement our recommendation to publish a breakdown of TfL's earmarked reserves and to report changes in its quarterly reports and budgets.

Conclusions

4.10 Although we recommended that all the functional bodies come to our meetings prepared to give us an overview of their tentative plans for managing the impact of the Spending Review and funding settlements, the Deputy Mayor for Transport admitted "we still have some more work to do to see what the implications of that are over the plan years."[35] It is likely that we will not know what the implications of government grant cuts on service levels and TfL's investment programme are until March, when TfL has finalised its new business plan. All we know at this stage is that the settlement was less favourable than elsewhere in the country and at the bottom end of TfL's range of expectations.[36] The revenue grant reductions will have implications for TfL's investment programme.

[33] Ian Nunn, speaking to the Budget and Performance Committee, 7 January 2016.
[34] Mike Brown, speaking to the Budget and Performance Committee, 7 January 2016.
[35] Isabel Dedring, speaking to the Budget and Performance Committee, 7 January 2016.
[36] The Government has increased its investment in transport across the country by 50 per cent over the current Parliament. Based on spending plans prior to the spending review, TfL estimates that the grant cuts will mean that TfL has £300 million a year less to spend on its investment programme over the next five years.

4.11 We note that TfL appears to have absolved itself of blame for the failed Bombardier SSUP contract. The Mayor and Deputy Mayor have told us that TfL's approach to the programme was wrong and this view has been confirmed by TfL as it has chosen to take a fundamentally different and far more hands-on approach with its new delivery partner, Thales. It has proven an exceptionally costly mistake, and one we think should have been avoided. While we welcome TfL's commitment to implement all 23 of the recommendations in the independent "lessons learned review" carried out by KPMG in 2014, it is not clear why TfL's management team had not ensured that these safeguards and control procedures were not in place prior to the Bombardier failure. The Mayor has told us that TfL has commissioned KPMG to do another review of all of its contracts to ensure that the lessons which have been learned from the Bombardier failure are not repeated in other programmes. When the review is concluded we would welcome sight of this new report. We will consider whether it should carry out further work in the spring to assess the institutional failings at TfL.

4.12 We were pleased that TfL's new Chief Financial Officer recognised the need to improve its financial reporting and that the organisation has accepted the recommendations we made in the Pre-Budget Report. We support TfL in its attempts to find sufficient savings to safeguard service levels and ensure that its core investment programme is delivered as currently planned. However, there is no escaping the fact that TfL's available funding has been substantially reduced and that this will have implications. We ask that these are clearly set out in the next business plan.

Recommendation 4

When TfL publishes its business plan in March, it should provide us with a reconciliation showing how the investment programme has changed since its 2014 Business Plan. This should include details of how budgets and delivery timescales for individual projects have changed and a commentary explaining the overall impact of government grant cuts and the additional spending requirements on the Sub-Surface Upgrade Programme.

5. Housing, regeneration and economy

Key issues identified in our Pre-Budget Report

5.1 The Mayor is close to meeting his affordable housing commitments. He is also developing new ways of intervening in London's housing market – for example, by creating Housing Zones and establishing the London Housing Bank. The future is looking more certain for the London Enterprise Panel, with the Government committing £12 billion[37] nationally for local growth, and we expect projects funded under the New Homes Bonus, and the Mayor's apprenticeship campaign, to continue next year. With regards to regeneration, this Mayor has initiated two large regeneration projects through his development corporations the London Legacy Development Corporation (LLDC) and the Old Oak and Park Royal Development Corporation (OPDC). As the GLA continues to commit its resources for regeneration to the two existing Mayoral Development Corporations (MDCs), the next Mayor may have less flexibility to introduce new regeneration programmes.

Our recommendations and the evidence we received

The London Housing Bank

5.2 In our Pre-Budget Report we recommended that the Mayor's budget should set out alternative uses for London Housing Bank funding, should appetite for the programme remain low. In response, the Mayor acknowledged that, of the £200 million programme budget, around £147 million remains unallocated and some of the allocations are "not certain to proceed". But he also said there is growing interest in the programme and, as a result, is not currently considering seeking agreement from DCLG to change funding conditions.[38] We will continue to monitor the housing bank programme closely.

Affordable home building

5.3 We questioned the Mayor about his target to part-fund 100,000 affordable homes over two Mayoral terms. The GLA currently assesses the overall risk rating for this target as "amber" due to a high volume of schemes still in forecast and the potential impact of the Housing Bill.[39] The Mayor, however, stated that 97,000 homes have been completed and there is "no risk" of missing this target. Between April and December 2015, there were

[37] The Government has committed £103 million for Further Education capital funding and £20 million for the London Regeneration Fund. There appears to be about £4.2bn (of the £12bn nationally) as yet unallocated that LEPs can bid for.
[38] The GLA received a £200 million repayable loan from DCLG to finance these homes. Rather than granting funding to developers, the GLA will provide them with loans at reduced rates of interest. In exchange, developers will let the homes at intermediate rates for a fixed period while they repay their loan to the GLA, who in turn will pay back DCLG.
[39] Greater London Authority Finance and Performance Monitoring Report, Quarter 2: 2015-16.

2,181 affordable home completions. To meet the 100,000 target would require a further 3,360 completions before March 2016.[40]

5.4 There is uncertainty about the affordable home building legacy the Mayor will bequeath to his successor. The London Housing Strategy, which the Mayor published in June 2014, stated £1.25 billion will be invested "to support the delivery of 42,000 affordable homes" between 2015 and 2018.[41] In September 2015, however, the GLA's Housing Investment Group (HIG) highlighted there is "uncertainty in relation to achieving [42,000 homes]", adding "it may be sensible to formally review the 2015-18 target set out in the London Housing Strategy".[42] Reasons cited included:

- The one per cent rent reduction in social rents announced in the Chancellor's Summer Budget 2015.
- The requirement for reasonably-sized sites to have a proportion of Starter Homes.
- The extension of the Right to Buy to housing association tenants.
- The focusing of new resources for affordable housing on affordable home ownership.

5.5 At our meeting, the Mayor did not agree with the HIG's assessment. In fact, he told us the number of affordable homes completed between 2015-16 and 2017-18 —the period covered by his housing covenant— "might exceed" 42,000. While these homes will be built in the next Mayoral term, the housing programmes that fund them follow decisions made by the current Mayor. As a result, he should be absolutely clear about what housing programmes he will pass on to his successor and how many associated affordable home completions there will be.

Housing Zones

5.6 Since appetite for the Mayor's Housing Covenant (2015 to 2018) was lower than anticipated, there is around £295 million of unallocated funding in the Mayor's housing budget. The Mayor is proposing to use £200 million to create ten new Housing Zones. Rather than simply part-funding new affordable homes, Housing Zones are "explicitly designed to be innovative and flexible and as such may involve novel methods of providing funding".[43] For example, the GLA expects the first 20 zones to:

- Deliver over 53,000 new homes (around a third affordable) and create over 120,000 construction jobs.
- Regenerate 14 different estates.

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[40] GLA Housing and Land Directorate – Affordable Housing Quarterly Update, January 2016.
[41] The London Housing Strategy, page 100.
[42] Housing Zones Designations – Phase 2, Housing Investment Group, 9 December 2015, paras 4.4-4.5.
[43] Housing Zones Designations – Phase 2, Housing Investment Group, 9 December 2015, para 8.1.

- Create 11 new bridges and 11 new parks.
- Improve or build 11 new schools.
- Improve or create 11 new stations, 9 health centres, 8 civic facilities, 6 libraries and 2 churches.[44]

5.7 Diverting funding to Housing Zones could result in fewer new affordable homes overall, delivered at a slower pace. The HIG acknowledged that leaving a higher level of funding available for continuous bidding "would theoretically give a higher chance of achieving the additional allocations required to hit the 42,000 [affordable homes] target by 2018". But due to the uncertainty about funding new affordable homes through traditional methods, it stated reallocating £200 million to the Housing Zones budget will "maximise housing delivery of all tenures in London" in the medium term.[45]

5.8 At our meeting, the Mayor committed to provide more detail about the number of affordable homes a £200 million investment in ten new Housing Zones will deliver, as well as details on what impact this alternative investment will have on when new homes will be built, compared to traditional investment in affordable housing.

Regeneration

LLDC

5.9 The GLA will be providing funding to the LLDC for the foreseeable future. The LLDC's new Chairman confirmed that he did not view the LLDC as a sunset organisation "unless you see the sunset as ten years off."[46] We recognise that with a draft capital budget which is expected to increase by £250 million between 2016-17 and 2018-19, it is unlikely that the LLDC's functions will begin to unwind any time soon. The Mayor confirmed in our meeting that the LLDC now has a "different objective" than was originally intended when it was established in 2012. He noted he expects that the Olympicopolis project will be delivered by 2021 and there will be a "big falling off of LLDC activity by that point."[47]

Olympicopolis

5.10 We continue to have concerns about the LLDC's delivery of Olympicopolis. Speaking at our January meeting, the LLDC's Chairman noted that it is "an incredibly difficult project to pull off because you have so many different organisations involved." The LLDC's most recent monitoring report holds a red risk that the 'higher education and cultural quarter – 'Olympicopolis' – will be delayed or costs will be more than anticipated.[48] If this risk

[44] Housing Zones Designations – Phase 2, Housing Investment Group, 9 December 2015, para 3.4.
[45] Housing Zones Designations – Phase 2, Housing Investment Group, 9 December 2015, paras 4.4-4.5.
[46] David Edmonds, Chairman, London Legacy Development Corporation, speaking to the Budget and Performance Committee, 7 January 2016.
[47] The Mayor speaking to Budget and Performance Committee, 12 January 2016.
[48] London Legacy Development Corporation, Corporate Performance, July- September 2015: Q2 2015/16, page 29.

materialises there will be implications for the GLA. The LLDC intends to spend all its £7.9 million in reserves during 2016-17. The consultation budget states that as the "Corporation's principal funder revenue reserves will be held by the GLA in the Mayor's component budget."[49] The LLDC will thus be dependent on the GLA's reserves to manage risks going forwards.

The Olympic Stadium

5.11 We have concerns about the cost of transforming the Olympic Stadium. In June 2015, the LLDC announced that it had awarded the final contract for transforming the stadium into a multi-use venue, at a cost of £272 million. When pressed about whether this was the final cost of transforming the Stadium by the Budget Monitoring Sub-Committee in July 2016, the LLDC's Chief Executive said "I am not giving you an absolute guarantee that nothing will happen that could cost more but I am staying that we are very confident about the position we have announced."[50]

5.12 The evidence that we received at our January 2016 meeting indicated that this confidence may have been misplaced. When asked whether the LLDC expects expenditure above £272 million for the stadium works, the LLDC's Chairman said "yes we are," although he did not provide a figure on the grounds that it might compromise the negotiations that the LLDC is currently holding with its contractors.[51]

5.13 Another area of concern related to the Olympic Stadium is the LLDC's plans to appeal against the Information Commissioner's instructions to release its contract with West Ham United Football Club for leasing the Olympic Stadium. At our January meeting, we heard that the LLDC has appointed a barrister to help prepare for the First-tier Tribunal hearing on 25 January 2016. The LLDC has already incurred legal costs preparing for the Tribunal, and it estimates that these costs will rise to £17,000 over the course of the appeal. If its appeal is rejected, the LLDC Board may then choose to appeal the decision again, in which case the legal costs would rise further. We do not judge it to be an appropriate use of taxpayers' money to continue to fight this legal battle. The Mayor indicated in our meeting that he shared this concern, stating:

> *I accept your point about costs very sincerely and I do not want legal costs being ratcheted up to an absurd limit. I will make sure that the Board of the LLDC will have to consider whether any legal costs incurred by the action with the Information Commissioner should rise above, say, £17,000.*[52]

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[49] The Mayor's Consultation Budget 2016-17. Page 45.
[50] David Goldstone CBE, Chief Executive of LLDC, speaking to the Budget Monitoring Sub Committee. 15 July 2015.
[51] David Edmonds, Chairman, London Legacy Development Corporation, speaking to the Budget and Performance Committee, 7 January 2016.
[52] The Mayor speaking to Budget and Performance Committee. 12 January 2016.

OPDC

5.14 The GLA is also responsible for significant investment through the OPDC. The OPDC has a revenue budget of £5.5 million in 2016-17. The draft budget states the OPDC does not have a capital budget and it is still not quite clear how this infrastructure investment at the site will be funded. This is a risk: in December 2014, Sir Edward Lister told the Assembly, "unless we spend £1.5 billion down there, nobody builds anything."[53] Last October, the OPDC suggested the total cost of investment might be up to £2 billion.[54] Although the OPDC might be able to raise around £500 million through a Community Infrastructure Levy, there will still be a significant funding gap, perhaps as much as £1.5 billion.

5.15 TfL's ability to help fund the OPDC project is under threat. Its 2014 business plan included £250 million for Old Oak Common stations, but the draft budget states that TfL is reviewing this (and other new capital spending commitments) following its reduction in Government funding (see Chapter 4).[55] The OPDC may receive some investment from Government, which has committed to "bringing together the publicly owned land around the Old Oak Common HS2 station into single control,"[56] but there has been no indication so far of how much the Government might contribute.

Other regeneration projects

5.16 Currently the GLA is supporting a number of long-term regeneration projects including those at the Olympic park and Old Oak Common and Park Royal. By committing ongoing support to these MDCs in the 2016-17 budget, there is less flexibility available to the new Mayor for other regeneration schemes. In our Pre-Budget Report, we recommended that the Mayor should clarify what funding is available for other (non-MDC) regeneration programmes in his budget. The Mayor responded that the Government is in the process of confirming indicative funds for London, including a £65 million Further Education Capital Fund, and £30 million for the London Regeneration Fund. According to the consultation budget, there is also £11.5 million of unallocated revenue funding in the core GLA's budget.

Conclusions

5.17 The ways the Mayor invests in new affordable housing in London are changing. In addition to allocating funding to Registered Providers to build new homes directly through traditional means, other interventions —such as Housing Zones— will utilise public subsidy in different ways to accelerate development, by funding a new bridge or decontaminating land, for example. This may affect the number of affordable homes built, especially in the Mayor's 2015 to 2018 programme. Ahead of the Mayoral and

[53] Plenary, December 2014.
[54] Victoria Hills, CEO, OPDC, speaking to Budget Monitoring Sub-Committee, 21 October 2015.
[55] Consultation budget, December 2015, page 40.
[56] Spending Review and Autumn Statement 2015, November 2015, page 68.

Assembly elections, the Mayor should clarify how many affordable homes the housing programmes he will pass on to his successor will part-fund between 2015 and 2018.

5.18 The LLDC is lacking in transparency about the Olympic Stadium, both with regards to its contract with West Ham United Football Club, and about the total costs for transforming it. It states that it "is committed to being open and transparent"[57] but it is reluctant to provide us, or the public, with many of the details involving the Stadium. The LLDC Chairman acknowledged that the LLDC is not open about these details, stating "I know and that is why I feel dead awkward defending a position where we are not being totally transparent about what is happening."[58] We intend to continue monitoring the LLDC's spending on transforming the Stadium and on its efforts to keep the West Ham contract confidential.

Recommendation 5

The Mayor should publish a revised target for the number of affordable home completions his Housing Strategy will support between 2015 and 2018.

Recommendation 6

The Mayor should explain in the Final Draft Consolidated Budget whether he intends to allocate the Further Education Capital Fund and the London Regeneration Fund before he leaves office, or if he will leave these decisions to his successor.

Recommendation 7

If the LLDC's appeal fails at the First-Tier tribunal we recommend it ceases its efforts to challenge the law and publishes the Olympic Stadium contract with West Ham in full.

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[57] The London Legacy Development Corporation, *Transparency*, 2016.
[58] David Edmonds, Chairman, London Legacy Development Corporation, speaking to the Budget and Performance Committee, 7 January 2016.

Recommendations

Recommendation 1

The Mayor should commit to lobbying the Government before he leaves office to introduce a monetary cap for the non-policing element of council tax as his budget suggests might be necessary in the future.

Recommendation 2

The Final Draft Consolidated Budget should include an explanation of how the core GLA will make £9.2 million of savings in 2016-17 and which services will be affected.

Recommendation 3

The Mayor’s Final Draft Consolidated Budget should report against its public confidence objective using the measure the Mayor chose in his Police and Crime Plan – the Crime Survey for England and Wales.

Recommendation 4

When TfL publishes its business plan in March, it should provide us with a reconciliation showing how the investment programme has changed since its 2014 Business Plan. This should include details of how budgets and delivery timescales for individual projects have changed and a commentary explaining the overall impact of government grant cuts and the additional spending requirements on the Sub-Surface Upgrade Programme.

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