LONDONASSEMBLY

Budget and Performance Committee

Pre-Budget Report 2010

December 2010

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Role of 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 also looks at spending and performance across the GLA group, undertaking investigations into issues such as the cost of policing, spending on the Olympics and public transport fares.

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Chairman's foreword

Putting together our Pre-Budget Report has been more difficult than usual this year. This is for two reasons. First because, following the Government's Comprehensive Spending Review (CSR), there is still uncertainty around funding for many of the services under the Mayor's control, as well as a number of areas set to be controlled from within City Hall in the future. But it has proved difficult also because, while budget making is always demanding, this is the first budget in eleven years in which we face quite serious cuts, and a cuts budget is always a fraught process. And it isn't over yet! No doubt it is also proving difficult for the Mayor and his officials to prepare 2011/12 budgets in time for the 15 December publication date.

Uniquely among the Mayor's functional bodies, Transport for London's government grant for next year (and the following three years) has already been announced. At £2.17 billion less over the four-year CSR period than had been expected under the previous settlement, the Mayor will be able to protect the major capital investment in the Underground and Crossrail but a number of lower priority programmes will suffer, as we describe in this report. There remain savings to be found. We suggest in particular that greater efficiencies and value for money can be achieved in the massive capital programmes of TfL. The ending of the PPP arguably demands a greater transparency in the inner finances of TfL and scrutiny of TfL.

Grants for policing and fire services in London – and for the Greater London Authority (GLA) itself – have not yet been finalised. Nonetheless, it is clear from the national picture that funding in these areas will be reduced by over 20 per cent in real terms over four years. The Mayor will look to protect existing provision of front-line services, at least initially, although this will become more difficult as grants are reduced year-on-year. We will see the Mayor's previous budget proposals for police numbers under severe threat in the coming months and years although, again, within a £3 billion plus organisation there must still be savings to be made to reduce its impact on the 'front line'.

The major remaining uncertainty is in some of the areas where the Mayor is set to be devolved new powers – economic development and housing. Grant settlements in these areas are yet to be finalised and we are told that there are still negotiations between the Mayor and the Government. In the case of Economic Development, the London Development Agency faces abolition, with its duties, we understand, to be brought into City Hall. Its indicative budgets while this transfer is finalised however present an immediate threat to a range of continuing programmes in London. We express our support for the Mayor in seeking further funding for these new responsibilities.

We also begin to look at the longer-term budgetary implications of the devolution proposals. However, in the absence of firm information about future grants it is hard to be precise about the balance of risks and opportunities. We intend to return to this issue as the picture becomes clearer.

As always we will use the findings of this report as the basis for our scrutiny of the budget proposals as they emerge. This year more than any other year promises to be a particularly difficult process. May I finally thank my colleagues on the committee, from all parties, for their work in securing a consensus in this pre-budget report.

John Biggs AM
Chairman of the Budget and Performance Committee

Executive summary

This year's budget process takes place against the background of the Government's plan to reduce the national deficit. Nationally, there is to be a £98 billion fiscal tightening by 2014/15.

Following the Government's Comprehensive Spending Review (CSR), this report examines what is known from announcements to date about funding available for the Mayor of London and the strategic choices he will need to make in his forthcoming draft budget for 2011/12.

Excluding the LDA, central funding for the existing devolved bodies - the Greater London Authority (GLA), Metropolitan Police Authority (MPA), London Fire and Emergency Planning Authority (LFEPA) and TfL - will decline by an average of 21 per cent over four years. This is slightly more than the average of non-protected government departments (19 per cent). It is also now clear that the process of winding down the national RDA network will begin with immediate effect, even though arrangements to transfer LDA functions to GLA have not yet been put in place.

In the draft budget, expected in mid-December, the Mayor will need to set out his strategy for responding to these reductions in public spending. Part of this strategy to date has been to continue to lobby central government for more funds, particularly for transport, economic development and regeneration. Once final decisions are made about the available funding for 2011/12 this strategy will also need to involve making difficult decisions about the level and allocation of money raised from council taxpayers and his revised priorities across the GLA group. The Mayor will need to consider the relative merits of the various calls on this approximately £0.9 billion from the police and fire authorities and potentially, for the first time since the GLA's creation, economic development.

Work is ongoing at the functional bodies to prepare budget proposals for 2011/12. Key issues identified in this report are summarised below.

Transport

- TfL's grant will reduce by 21per cent by 2014/15 - £2.17 billion less than under the previously agreed settlement – equivalent to an eight per cent reduction to its total annual budget.
- The Mayor's priority areas have been protected but lower priority programmes are facing cuts of 28 per cent on average.

- So such cuts can be minimised, TfL's large-scale, high-priority programmes should not be exempt from the requirement to find savings. TfL should do more to demonstrate it is achieving value for money in the Tube upgrade programme.
- TfL is undertaking a restructure of its back office functions.
- Pay awards for TfL staff are in contrast to the pay restraint in other areas of London's public services and are putting undue pressure on TfL to find further savings or additional income.

Policing

- Government spending on policing nationally will fall by 20 per cent over four years with reductions being steeper in the first two years of the spending review period.
- The MPA budget is also likely to be adversely affected by a reduction in third party income.
- The MPA's gross budget is likely to fall by around 10-12 per cent in cash terms (£365-437m) over the next four years.
- London will have over 1000 fewer police officers next March than in March 2010. This reduction may be possible without affecting service levels, but the onus is on the Met to demonstrate these reductions will not lead to a significant reduction in operational capacity

London Fire and Emergency Planning Authority

- The CSR will result in average real terms reductions in fire authorities' grants of 25 per cent over four years, back-loaded towards the end of the settlement period.
- LFEPA has stated that front-line services could be maintained next year based on a five per cent 2011/12 grant reduction but is unable to commit to protecting the current configuration of services beyond this.
- Based on the CSR, the grant cut looks likely to be lower than five per cent next year.
- We would welcome discussion of the potential use of LFEPA's reserves to contribute to its long-term savings agenda.

Economic development and regeneration (LDA and GLA)

- The winding down of the national network of RDAs, including the LDA, will begin with immediate effect. From April 2011 the only confirmed government funding is for ongoing contractual commitments.
- The position of the LDA is subject to continuing negotiations, given the government's stated intention to transfer LDA functions to the GLA and the need for funding to facilitate this.
- The Mayor continues to plan for a housing and regeneration agency within the GLA once the legislation is enacted to abolish the LDA and bring the London part of the Homes and Communities Agency under his control.
- The Committee argues that the transfer to City Hall of the functions of the LDA and HCA London should be accompanied by the transfer of LDA assets to the Mayor, rather than to Whitehall.

Looking forward: possible budgetary effects of proposals for devolution

Despite the welcome protection for transport infrastructure, the CSR provides particular challenges for the Mayor when combined with proposals for devolution of economic development and housing functions to City Hall. The Mayor is likely to gain significant new powers in these areas, however, the funding available to support them is still uncertain.

Central funding for economic development and housing nationally are set to reduce. Significant cuts in funding in London would put at risk the continuity of economic development and regeneration programmes currently carried out by the LDA and the HCA, and would limit the capacity of the GLA to deliver a new housing and regeneration function.

The Mayor has confirmed that he continues to lobby for a separate economic development fund for London. We support him in this and call on him to make the case that the most deprived areas of London should be eligible to receive funding from the new Regional Growth Fund.

There is a real opportunity to recognise the success of devolution to London and increase the powers to the Mayor in a way that could have seen a more mature devolution settlement. That opportunity could be missed if the devolution of new responsibilities to the Mayor is not supported with adequate funding. We look to the Government to recognise the importance of London to the UK in its final grant settlements in December.

1 Introduction

1.1 This year's budget process takes place against the background of the Government's plan to reduce the national deficit which last year was the largest in Britain's peacetime history. The Government intends public spending as a percentage of GDP to return to the level seen in 2006-07. According to the Institute of Fiscal Studies, the four years from April 2011 will be the "tightest sustained squeeze to public service spending since April 1976 to March 1980".[1]

1.2 While much remains to be finalised, it is clear that the landscape within which the Mayor will operate in the final two years of this term will be very different from the one he inherited in 2008. For Londoners, the final amount of London's devolved budget and how it is allocated will play a part in determining what sort of city we will live in over the next few years.

1.3 The aim of our Pre-Budget Report is to shed light on the allocation of the Mayor's multi-billion pound annual budget and influence the decisions he will make about it over the coming months. These decisions will affect key services received by Londoners in the areas of transport, policing, fire and emergency planning, housing and economic development. It also seeks to ask some questions about the possible negative implications of the Comprehensive Spending Review for devolved government in London.

1.4 This report is published each year before final allocations of grants have been made and therefore there is generally a degree of uncertainty. This is particularly the case this year. The Comprehensive Spending Review has provided some indicative figures about likely future funding levels but plenty is still unknown. Furthermore, the Mayor will have increased responsibility for organisations previously outside his formal control and there will be changes to existing organisations.

1.5 Inevitably it is the scale and effect of the cuts to public spending that will dominate the debate on this year's budget. Important decisions about this are outside the control of the Mayor and some have already been made. The Mayor and the

[1] Institute of Fiscal Studies, *Disease and cure in the UK: The fiscal impact of the crisis and the policy response*, November 2010

functional bodies have options in relation to controlling costs and exploring the potential for new sources of income to mitigate against the effects of budget reductions on service levels. Thinking should also be underway as to the Mayor's priorities across the GLA group and the potential for new approaches to delivering services in light of the new financial situation.

1.6 The complexities and uncertainties surrounding the setting of the 2011/12 budget make this year's report especially important in untangling the complex web of funding and delivery bodies to help answer some key questions about what the effects on Londoners might be. In seeking to do so, the report draws on the Committee's work, and that of other Assembly Committees, over the last 12 months and the information gathered from external experts and senior officials at the functional bodies since the Mayor published his budget guidance in May 2010.

1.7 Reductions will have to be made, and some schemes and programmes that are important and popular will have to be reduced or stopped. The reductions that take place and how they are managed will be determined largely by the budget decisions made over the next few months. This report is intended to inform the Assembly's contribution to that process and influence the Mayor's decisions during it.

2 The functional bodies' budgets

2.1 Following the CSR in October, the GLA, MPA, LDA and LFEPA will receive notification of their grant allocations for 2011/12 in early December. It will be at this stage in the process that the Mayor will consult the Assembly on his proposals for allocating income from the council tax precept. Government grants, fares and council tax income will be combined to produce high level draft budgets for each of the functional bodies. TfL's grant settlement has been announced by the Department for Transport as part of the Comprehensive Spending Review; its call on the council tax precept is generally a nominal sum representing around 0.1 per cent of its total budget.

2.2 Grant reductions will be spread over the next four years differently for each of the GLA organisations. The approaches taken by the Home Office and the Department for Communities and Local Government, for example, to the timing of funding reductions for police and fire services differ significantly. While reductions in LFEPA's grant will be backloaded towards the end of the four-year period allowing more time for savings to be made, cuts in the police grant are to be frontloaded – i.e. to be more severe in the first two years.

2.3 This chapter sets out what we have been told by the functional bodies about their work preparing budgets for 2011/12 and beyond. Work is ongoing based on the Mayor's Budget Guidance, which sets out his priorities and guidance about the likely precept settlement, and the information that is available from the Comprehensive Spending Review on the likely scale and timing of grant reductions.

2.4 We examine each functional body in turn and, in doing so, highlight issues which have emerged to date and the options open to them and the Mayor, particularly in the allocation and amount of the council tax precept. Where appropriate we make recommendations intended to guide and inform decisions during the budget process.

Transport for London

Key points on TfL

- TfL's grant funding will reduce by 21per cent by 2014/15 - £2.17 billion less during that period than under the previously agreed settlement – equivalent to an eight per cent reduction to its total annual budget.
- The Mayor's priority areas have been protected but lower priority programmes are facing cuts of 28 per cent on average.
- Stronger fare revenue than predicted will contribute to meeting over a third of the reduction in TfL's grant.
- Pay awards for TfL staff are in contrast to the pay restraint in other areas of London's public services.
- TfL is undertaking a welcome restructure of its back office functions which should seek to address the inherited inefficiencies brought about when various transport bodies were brought together to form TfL.

The TFL budget

2.5 The Mayor provides guidance to TfL as part of the annual budget setting process. He has executive power to direct the level of TfL fares and he also chairs the TfL Board. In 2010/11, TfL's gross expenditure was budgeted at £9,160 million. £3,711 million (41 per cent) came from government grants, £5,437 million (59 per cent) from fares, other income, borrowing and reserves and only £12 million (0.1 per cent) from the council tax precept. [2]

Implications of the CSR

2.6 TfL's grant funding will be reduced by 21 per cent in real terms over four years. TfL will receive £2.17 billion less in grant during that period than it had expected prior to the CSR. The biggest reductions will be in years three and four – i.e. the requirement for savings will be backloaded.[3] As the grant represents around one third of TfL's total funding (alongside fares, borrowing, advertising and rents), this is the equivalent

[2] GLA Group consolidated budget 2010-11, p41

[3] Letter from the Secretary of State for Transport to the Mayor setting out TfL's grant settlement, 20 October 2010

of an eight per cent reduction to TfL's total annual budget by 2014/15.[4]

2.7 In addition, other government spending reductions are likely to further increase the financial pressure on TfL. For example, the 20 per cent cut to the Bus Service Operators Grant, which is designed to reimburse excise duty paid on the fuel used in operating local bus services, will affect TfL. Although this grant is paid to the bus operators, when the Committee spoke to TfL it acknowledged that the likely result was that contract prices would be pushed up.[5]

The Mayor's priorities

2.8 The Mayor's Budget Guidance, published in May, gave a broad outline of the areas he wanted to prioritise in line with his ambition for a modern, efficient, and reliable transport network:

- Continue to deliver tube upgrades and Crossrail
- Deliver the cycle hire/super-highways schemes and improved cycle safety
- Agree the way forward on new river crossings
- Reduce traffic congestion and delays caused by roadworks

2.9 The CSR announcements confirmed that spending on Crossrail and the London Underground upgrade programme will be protected, as will bus miles and the extensions to the Cycle Hire/Super Highways schemes. The impact of the reductions in funding reductions will therefore fall on lower priority areas. TfL told us that in order to maintain these budgets against a backdrop of large grant cuts "lower priority" areas will face cuts of 28 per cent on average.[6]

2.10 Relatively small percentage savings in the costs of the large protected schemes could provide substantial additional funds for the smaller at risk areas. For example, a review of Crossrail identified £1 billion (six per cent) savings from the £16 billion

[4] TfL press release, 20 October 2010. 8 per cent of TfL's planned gross expenditure in 2014/15, excluding TfL and government contributions to Crossrail.
[5] Steve Allen, TfL Managing Director of Finance, Budget & Performance Committee 2 November 2010
[6] Steve Allen, TfL Managing Director of Finance, Budget & Performance Committee 2 November 2010

total cost and TfL will benefit from £500 million of these savings.

2.11 TfL has said that the cost of the Tube upgrade programme will be reduced by £300 million. This is equivalent to two per cent of the lifetime budget of the Tube upgrade programme.[7] We note that the PPP Arbiter has recently been reported as saying that London Underground has failed to tackle persistently high costs in the upgrade programme.[8]

2.12 In our view the large-scale, high-priority programmes should not be exempt from the requirement to find savings. The Tube upgrade programme should, like Crossrail, be challenged to deliver greater efficiencies while maintaining the agreed timescales and outcomes. Because the sums involved are so large any savings would go a long way towards preventing the high levels of funding reductions expected elsewhere.

2.13 Following the dismantling of the PPP structures, including the functions of the Arbiter, the Government and the Mayor have agreed to strengthen oversight of TfL through the appointment of a new panel of independent advisors to the TfL Board. We look to this panel to demonstrate more clearly how TfL is ensuring value for money in the delivery of these large-scale infrastructure projects and to provide robust challenge where necessary as the Arbiter has done in the past.

Recommendation 1

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

[7] The Mayor's press conference, 20 Nov 2010
[8] Financial Times, *Tube under fire over high upgrade costs*, 20 September 2010

Bridging the funding gap

2.14 The £2.17 billion grant reduction from the previous long-term settlement with government will require additional savings or increases in other income in order for TfL to deliver its business plan. While identifying cuts in lower priority programmes, the details of which will be provided in its forthcoming revised business plan, TfL has also indicated other ways in which the gap might be met without affecting front-line transport services.

2.15 In an attempt to mitigate the effects of funding reductions TfL is planning an ambitious organisation-wide restructure. The stated aim is to ensure the organisation is "fit for the next ten years and not the last ten". The Transport Commissioner has said that the new structure will be implemented from around April 2011.[9]

2.16 TfL has said that its restructure will lead to job losses in back-office functions. With posts under threat it is of note that TfL is set to award its staff above-inflation pay increases. Most TfL staff received a 4.2 per cent pay increase in 2010/11 as a result of a pay formula of RPI plus 0.5 per cent which is set to be applied again in 2011/12 for non-London Underground staff. This is in contrast to the pay restraint in other areas of London's public services, including local government and the Fire Brigade where workers have had to accept a pay freeze.

2.17 Pay inflation in 2010/11 could increase annual staffing costs by up to £75 million.[10] As a comparison the January 2011 fares increase of 6.8 per cent on average is expected to raise £165 million in additional fares revenue.[11]

2.18 The Committee welcomes the fact that TfL is to address some of the structural issues it inherited when various organisations were brought together when it was created. We are concerned though that above-inflation pay increases at a time of widespread public sector pay restraint is putting undue pressure on TfL to find

[9] The Mayor's press conference, 20 Nov 2010
[10] This is based on 4.2 per cent of TfL's budgeted employee costs for 2010/11 (£1,782 million).
[11] Mayoral Decision MD698

further savings or additional income. This pay policy is also at odds with the other bodies for which the Mayor has responsibility and raises the question of his role in setting a strategic framework for pay negotiations.

Recommendation 2

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

The Mayor's response to the findings and recommendations in this report should be received by 7 January 2011, in advance of our meeting with him on 11 January.

2.19 Passengers are also set to play a significant role in meeting the reduction in TfL's grant through the farebox. In our report on the Mayor's 2011 fares decision, we questioned the justification for an above-inflation fares rise. Passenger demand has been stronger than anticipated and now forecasts income from fares at £138m over budget for 2010/11.

2.20 Fares revenue is increasingly planned to provide a greater proportion of funding for London's transport services and investment in infrastructure compared with government grant.[12] As we reported previously, for every £1 of government funding in 2009/10 farepayers provided £0.99, but on plans in TfL's current Business Plan by 2017/18 farepayers would be expected to provide £1.29 for every £1.00 provided by the Government.[13] This trend will be exacerbated by reductions in TfL's grant over the next four years, as well as higher than expected fares revenue.[14]

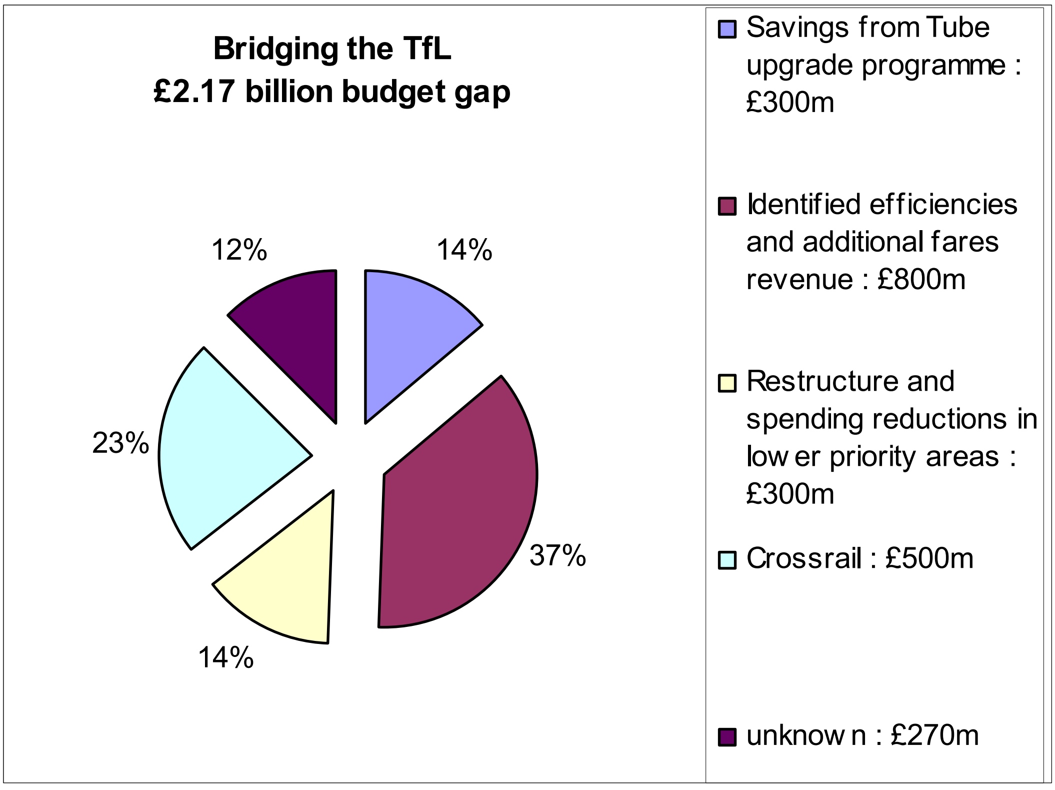
2.21 In its response to our fares report TfL stated that revenue from additional public transport demand would make up for over a third of the reduction to its grant. This is dependent on its

[12] *Balancing Act: The Mayor's 2011 fares decision*, Budget and Performance Committee report, August 2010
[13] IBID
[14] Steve Allen, Managing Director of Finance, TfL, speaking at the Budget and Performance Committee, 2 November 2010

assumption in the business plan of an RPI plus two per cent average annual fare increase which would see passengers facing a real terms fares increase of around 15 per cent by 2017/18.

2.22 Achieving the right balance between increased fare revenue and further savings to bridge the gap caused by reduced government grant is difficult. TfL is unique among the functional bodies in having another source of income which can meet a large part of its budget requirement. The risk is that an over-reliance on the fare box could affect other Mayoral priorities, such as the desire to encourage people to use public transport.

2.23 The diagram below summarises the information available to date about how TfL proposes to deal with the £2.17 billion funding gap. Further information is expected in its revised business plan to be published in spring 2011.



The Metropolitan Police Authority

Key points

- Government spending on policing nationally will fall by 20 per cent over four years with reductions being steeper in the first two year of the spending review period.
- The MPA budget is also likely to be adversely affected by a reduction in third party income from other public bodies to pay for police officers. The MPA's working assumption is a 25 per cent cut in this income.
- Based on the CSR and other published information, the MPA's gross budget is likely to fall by an amount in the region of 10-12 per cent (£365-437m) in cash terms over the next four years.
- The MPS has said that substantial reform will be needed to meet the savings requirements, but is holding off fundamental changes until after the Olympic Games.
- London will have fewer police officers next year. This reduction may be possible without affecting service levels, but the onus is on the Met to demonstrate these reductions will not lead to significant reduction in operational capacity.

The MPA budget

2.24 The Metropolitan Police Authority (MPA) is the functional body that provides governance and strategic direction to the Metropolitan Police Service (MPS). One of its key roles is to set and monitor the annual police budget, which is approximately £3.6 billion annually (gross). In 2010/11, £2,634 million (72 per cent) of its gross budget funding came from government grants, £646 million (18 per cent) from the council tax precept and the remaining £365 million (10 per cent) from other income and reserves.

Implications of the CSR

2.25 Government spending on policing nationally will fall by 20 per cent in real terms over the next four years (12.4 per cent in cash terms). It is not yet clear whether this reduction will be before or after the £28 million in-year cuts in 2010/11 announced following the emergency budget in June 2010.

2.26 The reduction is scheduled to be steeper in the first two years than the last two. For example, 9.3 per cent of the 12.4 per cent total reduction over the four years of the spending review is to be made in the first two years. The table below gives the annual national funding reductions.

	2011/12	2012/13	2013/14	2014/15	Cumulative
Cash terms reduction	4.1%	5.4%	1.1%	2.3%t	12.4%
Real terms reduction	5.6%	7.5%	3.7%	4.9%	20.0%

2.27 What this means for the MPA will depend on how percentage reductions are allocated between forces across the country and how they are split between core and specific grants. Grant allocations are expected to be announced in early December.

2.28 The decline in police funding set out in the CSR is less severe than the MPA had expected. Prior to its publication, the MPA was planning on the basis of a reduction in government grants of 25 per cent in real terms over four years. However, the frontloading of the reductions, if applied to the MPA, would mean similar reductions in the first two years of the business plan to those anticipated before the CSR.

2.29 The MPA budget may also be affected by cuts in the CSR to other parts of the public sector. This is because it receives third party income from other public bodies in London, such as TfL and London boroughs, to pay for policing in specific areas. Around 1,700 officers and 2,000 Police Community Support Officers were funded by third parties in 2010/11.[15] The MPA is currently budgeting for reductions of around 25 per cent over the next three years from third parties.

2.30 Overall, the MPA is planning for a cash reduction of 3.8 per cent on its core policing activity in 2011/12, which equates to a net expenditure reduction of approximately £102 million.[16] If precept income remains constant in years two, three and four of the CSR period, its general and specific grants fall in line with national spending on policing, and other income falls by the estimated 25 per cent, the MPA gross budget would fall

[15] Answer to MQT 3388/2010
[16] MPS Head of Resources, Budget and Performance Committee meeting, 2 Nov 2010

by 10-12 per cent (£365-437m) in cash terms over the next four years.

The potential effect of budget reductions and plans for savings

2.31 The Commissioner of the Metropolitan Police has said that substantial reform will be needed to meet the savings requirements. However, he has said that fundamental changes will not take place until after the Olympic Games in 2012. He believes that maintaining stability within the force over the next two years is essential given the policing challenges the Games present.

2.32 Even before the final grant allocation is made, it is clear that the MPS will have fewer officers next year than had previously been planned. Target officer strength at 31 March 2011 is over 1,000 (three per cent) lower than the number of officers (excluding Special Constables) twelve months earlier.[17] This reduction is being achieved through the implementation of a freeze on the recruitment of police officers. Target officer strengths beyond March 2012 are not yet known but there is currently no plan to lift the recruitment freeze so officer numbers will continue to decrease as officers leave the force.

2.33 In an attempt to move the debate about police effectiveness and public safety away from absolute numbers of officers, the new MPA Business Plan is being developed on the basis of 'doing all it can to maintain operational capacity'. The hope is that public confidence in policing can be sustained, even as officer numbers reduce, if it can be shown that the force's capacity to undertake core policing activities is being preserved through efforts to reduce bureaucracy and redeploy officers to the front line.

2.34 The MPA has not yet developed a measure of operational capacity it is willing to publish although it has been an aspiration for a number of years. Last year's Business Plan included proposals for a key performance indicator (KPI 8, Maximising the use of warranted officers) relating to

[17] Police officer strength at 31 March 2010 was 33,218 (not including Special Constables); forecast strength at 31 March 2011 is 32,201 (MPA Finance and Resources Committee paper, 21 October 2010).

operational policing capacity. However, there has not yet been any published analysis of past or future levels.

2.35 The likely effect of budget cuts on service levels is not yet known. Once budgets have been confirmed and the required savings determined, the onus will be on the MPA to demonstrate that any reductions in operational capacity have been minimised. To do this it will require some kind of measure of capacity which it is willing to share with the public.

2.36 The Budget and Performance Committee is currently undertaking an investigation into front-line policing. We are looking into the implications for policing capacity of reducing budgets and how this links to public expectations for front-line policing. We intend to make recommendations on the MPA's strategic allocation of increasingly scarce resources with a view to maximising operational capacity and maintaining public confidence in policing in our report due to be published in the New Year.

London Fire and Emergency Planning Authority (LFEPA)

Key points

- The CSR will result in average real terms reductions in fire authorities' grants of 25 per cent over four years, back-loaded towards the end of the settlement period.
- LFEPA has stated that front-line services could be maintained next year based on a five per cent 2011/12 grant reduction.
- Based on the CSR, the grant cut for 2011/12 looks likely to be lower than five per cent raising the possibility that the Mayor could reallocate some of the funding LFEPA receives from the precept to other areas.
- LFEPA has the opportunity to use reserves for invest-to-save projects.

The LFEPA budget

2.37 LFEPA sets and monitors the annual fire service budget, which was £469 million in 2010/11. Of this gross budget, £270 million (58 per cent) came from government grants, £178 million (38 per cent) from the council tax precept and the remaining £21 million (4 per cent) from other income and reserves. [18]

Implications of the CSR

2.38 The CSR will result in average real terms reductions to fire authorities' grants of 25 per cent over the four-year period to 2014/15. Taking into account its other income this represents a four-year reduction of 15 per cent of the overall budget. The back-loading of the cuts are intended to allow the effects on the quality and breadth of fire services to be minimised. [19]

The potential effect of budget reductions and plans for savings

2.39 Uniquely among the functional bodies, LFEPA published a draft 2011/12 budget in advance of the CSR. It was based on a scenario of five per cent (cash terms) grant reductions in 2011/12 and each year over the remainder of the CSR period.

[18] GLA Group consolidated budget 2010-11, p41
[19] Letter from the Fire Minister, 20 October 2010

LFEPA had previously stated that front-line services could be maintained for at least the first year.[20]

2.40 Although it will not be entirely clear until LFEPA receives its final grant settlement, back-loading means that its grant reduction could be less than the five per cent anticipated in the first year. If this is the case the Mayor could still ask LFEPA to deliver the savings already identified and allocate the difference (through the precept) to another functional body.[21] The sums involved would be relatively small but could give the Mayor some flexibility next year to compensate for areas which have been particularly cut, such as functions previously carried out by the LDA or to cover some of the savings required by the MPA.[22]

2.41 Equally, however, consideration will need to be given to the challenges LFEPA will face in the later years of the CSR period. The backloading of grant reductions could mean that savings of over 5 per cent are required for 2013/14 and 2014/15. There may also be cost pressures as early as 2012/13 when, following the end of the current two year pay freeze, there is likely to be pressure for an enhanced pay settlement.

2.42 As part of the budget setting process, LFEPA's Finance and Personnel Committee has agreed that officers should explore "whether there is an over supply of appliances". While the Mayor has highlighted the importance of maintaining front-line fire services, including the number of appliances, this could indicate that the scale of the challenge LFEPA faces particularly in future years.

2.43 To prepare for these challenges, LFEPA has the opportunity to make use of its relatively large reserves for longer-term invest-to-save projects, in line with the Mayor's Budget Guidance. LFEPA has revised its reserves policy so there will be a

[20] LFEPA Chairman speaking at the LFEPA meeting, 16 Sept 2010
[21] In a letter to the Chairman of LFEPA on 22 October the Mayor said, "In view of the proposed back-loading of the Settlement for fire authorities, but mindful of the fact that existing savings proposals you have made have not been to the frontline, I will reconsider the draft component budget for LFEPA carefully."
[22] For example, if LFEPA's grant were to be reduced by 3 percent in year one, and it delivered the five per cent savings identified in its draft budget, the Mayor could reallocate £5m of precept income.

minimum seven percent (£30 million) as a separate contingency to manage risk and uncertainty in the current financial and operational climate.[23] Despite this change LFEPA could have around £17 million in general reserves.[24]

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

London Development Agency

Key points

- The winding down of the national network of RDAs will begin with immediate effect. From April 2011 government funding will only be available to cover ongoing contractual commitments.
- In London, negotiations are underway both about the absolute amount of transitional funding and on its flexible use, given the Government's stated intention to transfer the regeneration functions of the LDA to the GLA.
- Based on amounts so far announced, the LDA is expecting to receive around £350 million over a four-year period of which £68 million will cover contractually committed non-Olympic programme expenditure for two years with £282 million for Olympic commitments over the next four years.
- The transfer to City Hall of the functions of the LDA and HCA London should be accompanied by the transfer of LDA assets to the Mayor, rather than them reverting to Whitehall.

The LDA budget

2.44 The LDA's gross budget expenditure for 2010/11 was set at £338 million with £320 million coming from a government grant and £18 million from the use of reserves.[25] The LDA's

[23] Paper to LFEPA at the full authority meeting on 18 November 2010, FEP 1628, *GLA Draft Budget Proposals for Consultation with Functional Bodies*
[24] Based on its quarter 2 monitoring report LFEPA would have opening general reserve balances in 2011/12 of £47.1 million equivalent to 11 per cent of annual expenditure.
[25] GLA Group consolidated budget 2010-11, p41

grant has been reducing year-on-year since it peaked at £483 million in 2006/07. Following the Government's emergency budget in July it was cut by a further £44 million to £276 million. Historically the LDA has not received council tax funding.

2.45 The LDA has a non-Olympic programme budget of £156 million in 2010/11. In addition the LDA is allocating £17 million to use as match-funding against the EU Jessica fund. It is also expecting to spend £269 million on Olympic Park related activities, £206 million of which is to be funded from borrowing and capital receipts. Its administration costs were budgeted at £40 million.

Winding down the LDA

2.46 Following the CSR it is now clear that the process of winding down the LDA will begin with immediate effect, before arrangements to transfer functions to the GLA are put in place. As a result, the LDA has announced plans to downsize its workforce. It will be looking to reduce its staff levels from 324 to 108 by the start of 2011/12, with further staff reductions as projects are closed down. It is too early for the LDA to estimate how much redundancy costs will be, especially since unlike the rest of the country some programmes will need to transfer to the GLA, but we understand that the Government is setting aside funding to cover administration and wind down costs.

2.47 It will be important for the Mayor and the LDA to make the case both for London's fair share of RDA winding up funds and for them to be flexible enough to enable the continuity of priority programmes and an orderly transfer of functions and key staff to the GLA and any other successor organisations.

2.48 The Treasury has so far indicated that the LDA is likely to receive approximately £350 million over a four-year period to cover its contractual commitments. £68 million will go towards non-Olympic programme expenditure over the next two years and the remaining £282 million will be used for the LDA's Olympic commitments over the next four years.

2.49 The table below shows a breakdown of expected LDA theme expenditure for 2011/12 and 2012/13 compared to that in 2010/11.

Theme expenditure £m	**2010/11 (as of Jul 2010)**	**2011/12 (indicative)**	**2012/13 (indicative)**
Regeneration	33	11	The breakdown for 2012/13 is unknown
Climate Change	20	10	
Sustained Employment	41	15	
Business Support	28	11	
International Promotion	27	-	
Olympic Sports programme	4	8	
Contingency	3	-	
Total	**156**	**56**	**12**

2.50 The future of the LDA's assets and liabilities, and indeed their value, is yet to be determined. The Government has said that there will be "no gift" of RDA assets to LEPs. However, it has been reported that some RDA assets - such as key regeneration sites - could be transferred to the HCA, which is set to come under the control of the Mayor in London.[26] The Mayor has said he considers that the LDA's land assets should be transferred to the GLA.[27]

2.51 The transfer to City Hall of the functions of the LDA and HCA London should be accompanied by the transfer of LDA assets to the Mayor, rather than to Whitehall. There is now a real opportunity to integrate housing and regeneration schemes alongside the Mayor's planning function and TfL. However, for this goal to be realised would require the Government to devolve LDA assets, principally its land holdings, to London.

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

[26] Local Government Chronicle, *Minister confirms RDAs' assets will not be 'handed' to LEPs*, 4 November 2010
[27] Response to Mayor's Question 3810/2010

Greater London Authority (GLA)

The GLA Budget

2.52 The GLA is the body which sets the strategic direction of London government as a whole. It supports the Mayor to this end and provides support and service to the London Assembly in its role of holding the Mayor to account. The GLA's gross budget expenditure for 2010/11 was £356 million. £48 million (13 per cent) of funding came from its government grant, £92 million (26 per cent) from the council tax precept and the remaining £216 million (61 per cent) from other income and reserves.

2.53 Of its £356 million gross budget only £74 million was for the GLA's core activities. The majority of other income (£214 million) came from the business rate supplement and was used to help fund Crossrail, £59.6 million of the council tax precept was given to the Olympic Delivery Authority as part of London's contribution towards the Olympic Games and £8.1 million of its government grant was used to fund the Museum of London. The £8 million funding of the London Assembly itself, which included £1.6 million for London Travel Watch, came from the £74 million.

Implications of the CSR

2.54 The Core GLA is perhaps where there is most uncertainty about future grant levels. At our meeting on 2 November it became clear that negotiations around the GLA grant had not yet commenced in earnest and were anticipated to begin in the week commencing 8 November.

2.55 At this stage the organisation is planning on the basis of a reduction at least in line with that planned for local authorities as a whole – 26 per cent in real terms over four years. Formal notification of the GLA grant allocation is expected at the same time as the wider local government settlement expected in early December.

2.56 The GLA also receives direct funding from the LDA for certain programmes. For 2011/12 the GLA had been expecting the LDA to provide £18 million to fund GLA activities, including

£2.7 million for the GLA's Events for London programme and £8.5 million for the Mayor's sports participation initiative.[28] We have requested information on the LDA's contractual commitments that will be funded by the Government from 2011/12. This would make the likely extent of the affect on GLA activities clearer and we are looking at it further as part of our consideration of the draft GLA budget. The Committee will formally respond to the initial GLA budget proposals in early December.

Options for the Mayor

Key points

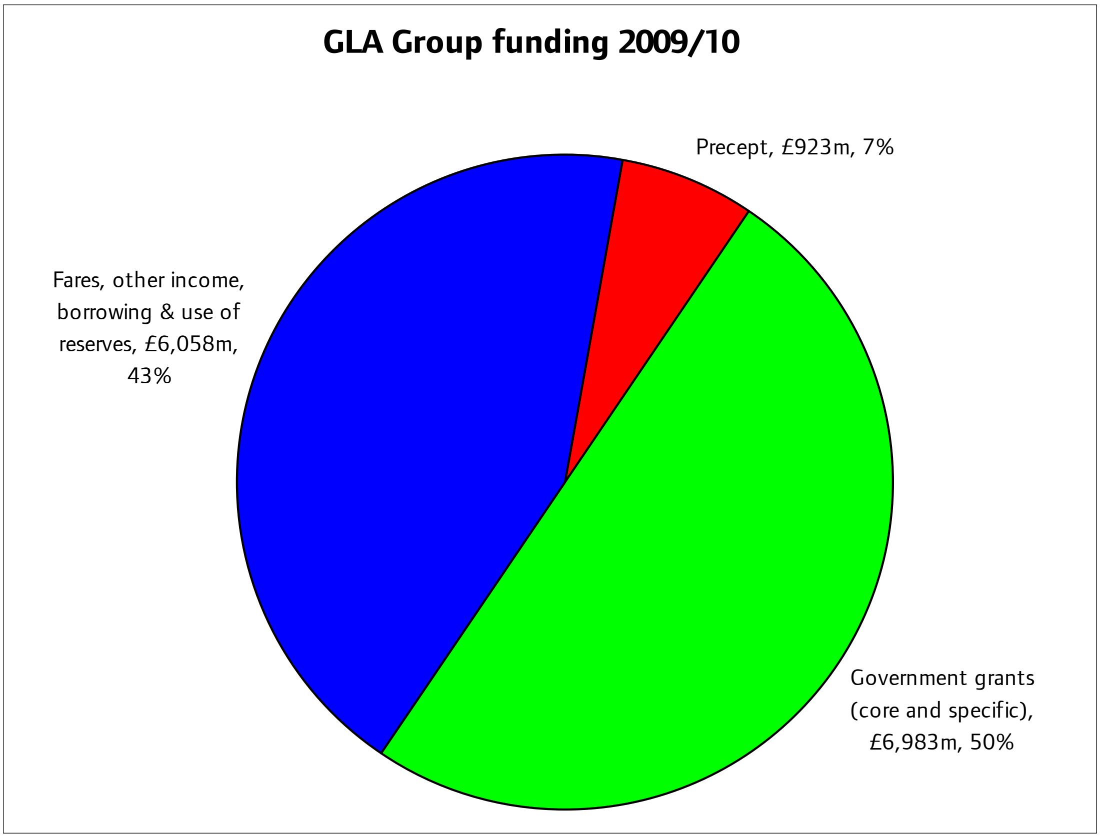
- A rise in the council tax precept in 2011/12 seems unlikely in the light of the Mayor's comments to date and given the Government's intention to provide authorities which freeze council tax with an additional annual grant – this would be some £23 million in the case of GLA.
- There are options around the distribution of precept revenue and the potential £23 million reward grant.
- The Mayor has said he would consider allocating additional resources from the precept to protect front-line policing but there are now greater calls on precept funding than had been anticipated.
- Government has stated its intention to allow local authorities to retain a share of increased business rates from economic development and to borrow through Tax Increment Finance (TIF). However it is too soon for these to provide an immediate solution to reducing transport and regeneration budgets from 2011/12.

2.57 In setting a draft budget, the Mayor may seek to raise additional income by increasing the precept and/or reallocate the proportion of it between each functional body. Additionally there may be the potential to attract more private investment or explore as yet unused ways of raising funds such as Tax Increment Financing. These options are explored below.

[28] Mayor of London, *Draft GLA Budget for 2011-12*, reported on the agenda for the Budget and Performance Committee meeting on 24 November 2010

2.58 During 2010/11 the Mayor's portion of council tax in London (the precept) resulted in a contribution of £923 million towards a total GLA group expenditure of around £14 billion. As such, the precept will continue to provide a relatively small proportion of overall GLA group funding (around 7 per cent in 2010/11). The diagram overleaf shows the proportions of the GLA group's income raised through grants, the precept and other income in 2010/11.

2.59 The Mayor has stated his desire to limit the burden on council taxpayers. In 2011/12 a rise seems difficult to justify given the Government's intention to provide authorities which freeze council tax with an additional annual grant (for four years). For the GLA group this "reward grant" would be £23 million, the equivalent of a 2.5 per cent rise.[29] This would mean that in order to raise additional income from the precept, the Mayor would have to increase it by more than 2.5 per cent.



[29] Letter from the Secretary of State for Communities and Local Government to local authority leaders, 20 Oct 2010

2.60 The Mayor does have the option to vary the distribution of the precept between the different parts of the GLA Group, as he has previously. For example, the amount from the precept allocated to LFEPA has increased by over a third over the past three years. This included a £19.7 million (12.5 per cent) rise in 2010/11 at the same time as a reduction to the MPA precept allocation of £16.4m.

2.61 The Mayor has suggested that he might be prepared to give the police additional resources in an attempt to protect front-line policing from the effects of grant reductions.[30] There may be a case for reconsidering this option in the light of the CSR. Another option would be to divert resources towards the LDA (while it remains) and the GLA for economic development programmes.

2.62 Funding LDA activities through the precept would represent a change in policy compared with that adopted by the current and previous Mayor. The LDA has not received funding from the council tax precept before. The Mayor may wish to reconsider this policy depending on the outcome of his negotiations with government on a separate economic development fund for London.

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

Driving savings across the GLA group

2.63 While the scale of the grant cuts facing the GLA group is severe it also provides a distinct focus for the GLA and the functional bodies to reduce wasteful activity – i.e. that activity which does not contribute to what people actually value about public services.

[30] On the day of the CSR announcement, the Mayor said, "we will do all we can to continue to drive down crime including, if necessary, vireing money from the precept" (press conference, 20 October 2010).

2.64 The Committee has heard about some ways in which this can be done. During our work looking into front line policing evidence has been submitted on Operation QUEST, a Home Office sponsored programme for implementing change in the police based on LEAN principles. Among the central principles of the LEAN enterprise model is the aim of eliminating waste within business processes to both deliver savings and improve the customer experience.

2.65 Looking to rely on back office savings alone could mean an unhealthy focus on cutting the costs of existing delivery, rather than looking to use innovation to deliver services in new ways. The Committee has also collected evidence from NESTA which advocates the use of innovation to increase efficiency and improve outcomes.[31] Examples cited included Chicago's Citizen Law Enforcement Analysis and Reporting (CLEAR), where innovative use of mobile technology has reduced crime and delivered savings by reducing paperwork and providing real-time crime scene information.

2.66 The scale of the retrenchment in public sector spending marks a watershed and will need a different response from input driven, 'salami slice' approaches to gaining efficiencies. Delivery of the savings that will be needed by the end of the CSR period will require a focus on outcomes in the Mayor's priority areas. To achieve this the Mayor will need a clear set of priorities across the GLA group, revised in light of budget reductions as they become clear.

2.67 The Mayor and the functional bodies should also be looking as soon as possible to test approaches that meet demand in new ways, while trying to continue to meet public expectations.

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

[31] NESTA is the National Endowment for Science, Technology and the Arts.

2.68 One approach to delivering savings across the GLA group is being led by Nicholas Griffin, the Mayoral Advisor on Budgets & Performance. He attended the Budget and Performance Committee meeting on 13 July and set out his plans to deliver efficiencies under three broad headings: shared services, collaborative working and collaborative procurement.

2.69 The potential for joint working between the functional bodies has been largely unexploited in the life of the GLA group. As such, this is an opportunity, according to Mr Griffin, to deliver up to £440m in annual savings. However, when we spoke to the functional bodies they did not appear to be anticipating significant savings in 2011/12 from this central programme.[32]

2.70 In fact it may be that existing organisational change programmes at some of the functional bodies may be progressing to the detriment of aspirations for greater coordination. The most recent update on the progress of shared services, for example, notes, "Both TfL and the MPS are engaged in major restructurings of their HR service provision so opportunities for total service transfer are a year to 18 months away".[33]

2.71 There is a risk that, without greater leadership from City Hall in coordinating the collective requirement to change and encouraging innovation, the GLA Group organisations will resort to introspection, breaking down existing partnership working rather than collaborating more effectively.

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

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[32] Nicholas Griffin, Mayoral Advisor on Budgets and Performance, Budget and Performance Committee, 13 July 2010 and the GLA Group heads of finance, Budget and Performance Committee, 2 November 2010
[33] Report to the Assembly's Business, Management and Administration Committee, 20 July 2010

Other ways of raising money

2.72 Beyond the precept and public transport fares the Mayor has limited options for raising substantial additional income. His Advisor for Economic Development has called London "the most fiscally infantilised big city on earth", comparing the 7 per cent of income raised locally here to the 50 per cent in New York and the 80 per cent in Tokyo. He said,

> There is a fundamental issue here about so-called buoyancy – our revenues don't increase as the economy grows. Although we are statutorily responsible for the economic development of London, we get no financial benefit from it. We can't invest in measures to boost the London economy, and reap the rewards of economic growth.[34]

2.73 The Government's view is that local authorities should be able to retain locally-raised business rates as an incentive to promote local economic growth. Alongside this the Government is consulting on the introduction of new borrowing powers to enable authorities to use Tax Increment Finance (TIF), which is borrowing against future uplifts in business rates to fund regeneration and infrastructure projects.[35]

2.74 The Mayor has raised the possibility of using TIF to finance an extension of the Northern line to Battersea and regeneration in the area close to the new US Embassy. This has been examined by consultants commissioned jointly by the GLA, TfL and the relevant boroughs who conclude, "there could be a role for TIF in financing some transport infrastructure, but that possible role, and the scale of that role, is still not clear". The possibility of funding an extension of the Northern line entirely through TIF is ruled out, although the report says there may be a role for TIF "over the longer term, and for a smaller project – perhaps one which has less risk involved".[36]

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[34] Antony Browne, Mayoral Advisor on Economic Development, *More Power to the* Mayor, Public Servant, 5 July 2010
[35] Department of Business, Innovation and Skills, *Local growth: realising every place's potential*, 28 October 2010
[36] Roger Tym & Partners, Peter Brett Associates and GVA Grimley, *Vauxhall Nine Elms Battersea Development Infrastructure Funding Study*, October 2010

2.75 Alongside TIF, there are a number of other ways in which the Mayor can raise additional income. Examples of these which are already used are rent, sponsorship, advertising and prudential borrowing. An example which could be important in the future could be the issuance of bonds against future revenue streams. We have heard that an increase in the cost of government borrowing could make bond issuance a cost effective option in relation to Crossrail funding.[37] Indeed TfL has recently announced its first successful short-term commercial bond issuance.[38]

2.76 **As government grants are reduced over the next four years interest in the Mayor's ability to raise income locally looks set to increase. There are a number of existing revenue streams, including rent and sponsorship, which the Mayor and the functional bodies should be looking to maximise. Beyond that there may be the potential for new mechanisms such as bond issuance and TIF.**

2.77 In the case of the latter, regeneration budgets look likely to be considerably reduced from 2011/12 and it does not appear that TIF will provide an immediate solution. Setting up an environment where TIF can be used will be complex. It will also require changes in legislation and is therefore unlikely to be available very soon. There are also concerns about the risks of using TIF, including the possibility that business rate yields may not be sufficient to cover debt obligations.[39]

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

[37] As part of the CSR HM Treasury has instructed the Public Works Loan Board to increase the interest rate on all new loans to an average of 1 per cent above the Government's cost of borrowing. In relation to Crossrail borrowing, the GLA's Treasury Management Report (on the agenda of the Committee's 2 November meeting) notes, "GLA officers will revisit earlier work appraising other financing options, including bond issuance".
[38] *TfL secures first short-term borrowing under its newly established £2bn Commercial Paper Programme*, TfL press release, 18 Nov 2010
[39] LocalGov, *Clegg unveils new borrowing powers*, 29 September 2010

3 Looking forward: possible budgetary effects of proposals for devolution

Devolution proposals

3.1 Following the election of the new Government in May, the Mayor made a number of proposals for the devolution of responsibilities and resources from Whitehall to the GLA. He noted that, while the original devolution package when the Mayoralty was created was bold, it was "lacking in some crucial respects". He argued that the GLA remained highly dependent on national government and that the "settlement" was well short of the arrangements in cities such as New York and Tokyo.

3.2 The Mayor proposed a set of potential reforms which he believed formed "part of a truly localist approach to public service delivery in which real and meaningful discretion is exercised democratically at the appropriate tier of government". He wrote, along with the chairs of the London Assembly and London Councils, to the Secretary of State for Communities and Local Government with an agreed set of devolution proposals in July 2010. It is expected that legislation will be introduced shortly to give effect to some of these proposals.

3.3 The proposed changes which will particularly affect the budgets of the GLA group are:

- The transfer of the Home and Communities Agency (HCA) in London to the GLA
- The LDA's functions folding into the GLA, with the LDA ceasing to exist
- The transfer of responsibility and funding for the Royal Parks Agency to the GLA

3.4 Other proposed changes would affect the powers devolved to the Mayor but would not have substantial budgetary implications. The key proposals relating to powers are that the MPA should be replaced by a new executive police board chaired by the Mayor with scrutiny of the police undertaken by the Assembly; and that Olympic Park Legacy Company is reconstituted as a Mayoral Development Corporation. In this report we are focusing on the Mayor's budgets and as such do not consider these potential changes further.

The London region of the Homes and Communities Agency

3.5 The Mayor has described the split responsibility for HCA London between national and London government as "suboptimal". With the support of the Assembly, he proposed that HCA London should be incorporated into the GLA, giving him "greater freedom on how he funds his priorities" and "greater flexibility to respond to the needs of Londoners".[40] He envisaged the creation of a new housing and regeneration body as an executive arm of the GLA which would take on the functions of HCA London and the regeneration function of the LDA.

3.6 The Government is also consulting on a number of other changes around housing, including the following:

- Allowing local flexibility to move social rents closer to market rates to fund affordable house building
- A New Homes Bonus to provide an incentive for councils to build new homes in their area
- Housing Revenue Account reform to enable councils to keep rental income to finance their own stock
- Decent Homes funding which totals some £2bn in 2011/12 (London has 46% of non-decent stock)

3.7 It can be seen from the list above that beyond grant funding for the HCA there may be alternative sources of housing money for local authorities. At this stage, however, it is difficult to quantify their impact on London, although especially in the case of Decent Homes, there is a strong needs-based case for a significant proportion of the new funds.

The London Development Agency

3.8 The Government has confirmed that the LDA, like the other Regional Development Agencies (RDAs) will be abolished by March 2012. This section looks at the implications of this in terms of the Mayor's influence over economic development in London. The process of winding down the LDA and its

[40] The implementation of this proposal would involve reviewing Section 31 of the GLA Act 1999, which prevents the GLA incurring expenditure in the areas of housing, education services, social services or health services.

budgets going forward are examined in more detail in Section 2 of this report.

3.9 The LDA is required to exercise its functions in accordance with guidance and directions issued to it by the Mayor of London. It receives the majority of its funding from the Department for Business Innovation and Skills (BIS) (around 77 per cent) with the remainder coming from EU funds, other grants and investment income.

3.10 Under the Mayor's proposals for devolution, the GLA would be given new development powers and assume responsibility for the bulk of the LDA's activities. This would, he suggested, enable more streamlined decision-making, result in efficiencies and improve transparency and accountability. The GLA would become the Mayor's lead body for economic development and LDA funding would be provided to City Hall instead. The Assembly and London Councils supported this proposal.

3.11 Funding for this new role was not specifically addressed in the CSR announcement but the Mayor has indicated that he is in negotiations with the Government for a separate economic development fund for London. We have expressed our support for the Mayor in seeking further funding for these new responsibilities (see Recommendation 4 of this report).

3.12 As noted above, the Mayor has proposed that he would establish a new housing and regeneration department at the GLA which would bring together the funding and staffing resources for regeneration from the LDA and housing from the HCA. This would create efficiencies in back office services from combining these functions within the existing GLA. It would also enable the Mayor to coordinate his planning, housing and regeneration policies and programmes and open up more of the land owned by the HCA and LDA for much-needed regeneration. We await proposals in this area to be included in the Government's Decentralisation and Localism Bill.

The Royal Parks Agency

3.13 The Secretary of State for Culture, Media and Sport has confirmed his intention that the Royal Parks Agency should transfer to the GLA. It is currently an executive agency of the Department of Culture, Media and Sport (DCMS). This is in line with the proposal made by the Mayor in his Proposals for Devolution published in June 2010 and the joint letter from the Mayor, Assembly and London Councils.

3.14 The Agency had an annual budget of around £34 million in 2009/10, including DCMS funding of £19 million. There was an equivalent of 128 staff at a cost of £5.4 million.[41] Following the CSR, the overall DCMS budget will reduce by 25 per cent in real terms by 2014-15 and the Royal Parks Agency grant will fall by the same proportion.[42]

Budgetary implications of the CSR for new functions

3.15 The Assembly has welcomed the set of proposals for devolution to the Mayor and GLA, subject to transparency and accountability mechanisms being built into the new arrangements. It is imperative though that, where the exercise of these powers relies on funding from central government, sufficient funds are available to enable the Mayor to fulfil his responsibilities.

3.16 London has the largest budget of the HCA's regions, with a total of around £1.1 billion a year under the terms of the previous spending review in 2007. Regional allocations have not yet been finalised but the national HCA budget for the next four-year period has been set at £4.5 billion, just over half the previous £8.4 billion.

3.17 The CSR did not include a separate fund to support functions previously carried out by the LDA and the Government had indicated that nationally the only funding within the old RDA network for economic development in 2011/12 and beyond will be to support existing contractual obligations.[43] The Mayor is continuing to lobby for a separate economic development fund for London. He has said that the Government was "absolutely committed" to creating a

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[41] Royal Parks Agency, 2009-10 Annual Report and Accounts, 26 July 2010
[42] Letter from the Secretary of State to the Chief Executive of the Royal Parks Agency, 21 October 2010
[43] Group Director of Finance, LDA, Budget and Performance Committee, 2 Nov 2010

development arm of the GLA, with a single funding pot for economic development.[44]

3.18 There is a strong case for this. Although it is not as reliant as other areas on public sector employment, London faces its own unique challenges. Five of the ten most deprived districts in the country are in London.[45] Related issues such as skills gaps, long-term unemployment, shortages in social housing and the need to promote the capital internationally to attract inward investment need to be tackled across London.

The Regional Growth Fund

3.19 BIS has announced details of arrangements intended to replace the funding previously channelled through RDAs across England. The new 'Regional Growth Fund' (RGF) will be focused on "those areas and communities that are currently too dependent on the public sector".[46] There will be £1.4 billion available over three years with £495 million allocated for 2011/12.

3.20 Lord Heseltine, chair of the panel advising on the use of the fund, said at a conference on 10 November that the criteria to be met meant that "significant parts" of London and the South-East would find it hard to make successful bids. His comment refers to the Fund's aim to support areas that are currently too dependent on the public sector. In the UK as a whole public sector employment accounts for 20 per cent of work. In London the figure is 16 per cent[47] but in cities such as Liverpool and Oxford the public sector provides over a third of employment.[48]

3.21 **The Mayor should be making the case that the most deprived parts of London should be eligible for central economic development and regeneration funding under**

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[44] Mayor of London, speaking the LDA annual public meeting, 9 November 2010
[45] Department for Communities and Local Government, English Indices of Deprivation, 2007
[46] Comprehensive Spending Review 2010, p 47
[47] This is an average across the capital. Figures at a borough level, for example, would vary with more public sector employment in some areas than others.
[48] Office of National Statistics, Q1 2010 data for national average and Oxford and Liverpool. The London figure comes from *Public spend and service use in London*, GLA Intelligence Unit, Oct 2010.

the RGF. He should be lobbying for the application criteria for the RGF to be adjusted to make it possible to bid for money on the basis of deprivation, rather than looking solely at an area's reliance on the public sector.

3.22 Economic development in the capital is also vital for the wider UK. As the Mayor points out in his Economic Development Strategy, London has generated between £8.4 billion and £18.4 billion annually more in tax revenues than it received in public expenditure, thus exporting tax revenues to the rest of the UK. It has been able to do so, in part, because of its attractiveness as a business centre which in turn depends largely on its transport network and its pool of skilled labour.

3.23 There has been some welcome recognition of these factors in the decisions to protect funding for the Tube upgrades and Crossrail within the transport settlement, as well continuing funding for Thameslink. In other areas of the Mayor's budget, however, there has been little acknowledgement of the contribution London makes to the UK.

3.24 The importance of funds to support activity previously carried out by the LDA is demonstrated by an analysis of its recent work. Last year the LDA reported outcomes in areas including regeneration, climate change, employment, business support and international promotion. Achievements include building 703 new homes and the reclamation of 12 hectares of brownfield land for development; supporting nearly 35,000 Londoners to improve their skills and look for jobs, resulting in 2,600 successful placements into work; supporting around 10,000 London businesses, particularly through Business Link; and levering £241 million of investment into the capital.[49]

3.25 The LDA has also played a leading role in delivering the Mayor's Climate Change Strategy and other environmental strategies. For example, £3.25 million was to be spent by the LDA next year on the RE:NEW home insulation scheme which is essential to meeting mayoral targets for carbon reduction.

[49] *LDA Annual Report and Accounts 2009/10*, 5 Nov 2010

3.26 A reduction in LDA funding will potentially have an impact not only on economic development and regeneration but also on the achievement of the Mayor's environmental objectives. It is vital the Mayor ensures the Government understands the importance of the LDA's environmental work to date and the limitations to finding different sources of funding. Additionally, when LDA and GLA budgets for next year are finalised the Mayor should view the work of the two bodies as a whole when deciding mayoral priorities in order that former LDA environmental programmes can be maintained if the Mayor so chooses.

3.27 Lastly, the LDA funds a number of particular Mayoral priorities. As discussed in paragraph 2.56, in 2011/12 the GLA had been expecting the LDA to provide £18 million to fund GLA activities, including the GLA events programme and the sports participation initiative. There are also a number of areas, such as the promotion of inward investment and the Mayor's Academies programme, where the LDA currently leads but which could be a priority for the Mayor to continue, even if grant funding was withdrawn.[50]

3.28 Amongst proposals agreed by the Mayor, Assembly and London Councils was that LDA and HCA functions should be folded into the GLA. Significant cuts in funding would put at risk the continuity of economic development and regeneration programmes currently carried out by the LDA, and would limit the capacity of the GLA to deliver a new housing and regeneration function.

3.29 Despite these risks, there is a real opportunity to recognise the success of devolution to London and increase the powers to the Mayor in a way that will see a more mature devolution settlement. That opportunity could be missed if the devolution of new responsibilities to the Mayor is not supported with adequate funding.

[50] The Academies programme is funded by £8 million from the LDA with £2.8 million budgeted for use before 2012/13 (LDA Board paper, 18 May 2010).

3.30 We strongly support the Mayor in continuing to make the case for London to central government and seeking further funds to support economic development and international promotion in particular. We look to the Government to recognise the importance of London to the UK in its final grant settlements in December.

4 Conclusion

4.1 This year's budget process takes place against the background of the Government's plan to reduce the national deficit. Nationally, there is to be a £98 billion fiscal tightening by 2014/15.

4.2 The Government's Comprehensive Spending Review and the departmental announcements which followed made clear that the level of central funding the bodies in the GLA group should expect over the next four years will be significantly reduced, although a degree of uncertainty will remain until a number of grant settlements are announced later in December. Existing GLA functions, excluding the LDA, look set for an average grant reduction of around 21 per cent over four years.

4.3 Structural changes to reflect the devolution of housing and economic development functions, as well as the Royal Parks Agency, will begin to come into effect over the next financial year. At the same time, central funding for economic development and housing nationally are set to reduce.

4.4 The new powers expected to come to City Hall, particularly for housing and economic development, should enhance the role of London government. However, the limited funding likely to be accompanying these new powers will restrict the GLA's sphere of influence compared with what was envisaged in the agreed devolution proposals made by the Mayor, Assembly and London Councils. It may also limit the capacity of the Mayor to operate a new housing and regeneration function from within the GLA.

4.5 The Government is proposing a number of new powers and incentives which could mitigate against reductions in grant funding – powers for local authorities to raise revenue through new borrowing and the New Homes Bonus are two examples. The beneficial impact of these changes and the extent to which they can offset funding reductions remains uncertain, however, and the ongoing negotiations between the Mayor and the Government are clearly very important for housing and economic development outcomes in London. We look to the Government to recognise the importance of London to the UK in its final grant settlements in December.

4.6 There are, in addition, a number of practical steps the Mayor can take to minimise the effects on the services for which he is responsible or will be in the future. As government grants are reduced the Mayor will need to look at new ways of raising revenue and ensure costs are controlled and substantial efficiencies gained. The functional bodies should also now be looking at options for more fundamental reform of the way in which many services are delivered.

4.7 Finally, during a period where London is expected to lose the largest number of jobs of any UK region, we must bear in mind the risks associated with organisational change.[51] Efforts will be made to scale back staffing through natural wastage but it seems inevitable that redundancies will be required. As well as uncertainty for staff, this is likely to result in the loss of important skills, knowledge and contacts. These assets are particularly important for a strategic authority such as the GLA and to lose them would certainly have a detrimental effect in the longer term.

4.8 As is the case everywhere else in the public sector and the country as a whole, the next few years will be a very difficult time. London faces its own particular challenges and there are likely to be huge changes in the ways services are delivered. We hope through this report to have provided some clarity and raised some important questions around the future of those areas which are, or which look set to be, the responsibility of the Mayor.

[51] PwC, *Spending cuts: The impact on regions and industries*, 13 October 2010

Appendix 1 Recommendations

Recommendation 1

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

Recommendation 2

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

The Mayor's response to the findings and recommendations in this report should be received by 7 January 2011, in advance of our meeting with him on 11 January.

Recommendation 3

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

Recommendation 4

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

Recommendation 5

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

Recommendation 6

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

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

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

Appendix 2 Orders and translations

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Hindi

यदि आपको इस दस्तावेज का सारांश अपनी भाषा में चाहिए तो उपर दिये हुए नंबर पर फोन करें या उपर दिये गये डाक पते या ई मेल पते पर हम से संपर्क करें।

Vietnamese

Nếu ông (bà) muốn nội dung văn bản này được dịch sang tiếng Việt, xin vui lòng liên hệ với chúng tôi bằng điện thoại, thư hoặc thư điện tử theo địa chỉ ở trên.

Bengali

আপনি যদি এই দলিলের একটা সারাংশ নিজের ভাষায় পেতে চান, তাহলে দয়া করে ফো   করবেন অথবা উল্লেখিত ডাক ঠিকানায় বা ই-মেইল ঠিকানায় আমাদের সাথে যোগাযোগ করবেন।

Greek

Εάν επιθυμείτε περίληψη αυτού του κειμένου στην γλώσσα σας, παρακαλώ καλέστε τον αριθμό ή επικοινωνήστε μαζί μας στην ανωτέρω ταχυδρομική ή την ηλεκτρονική διεύθυνση.

Urdu

اگر آپ کو اس دستاویز کا خلاصہ اپنی زبان میں
درکار ہو تو، براہ کرم نمبر پر فون کریں
یا مذکورہ بالا ڈاک کے پتے یا ای میل
پتے پر ہم سے رابطہ کریں۔

Turkish

Bu belgenin kendi dilinize çevrilmiş bir özetini okumak isterseniz, lütfen yukarıdaki telefon numarasını arayın, veya posta ya da e-posta adresi aracılığıyla bizimle temasa geçin.

Arabic

الحصول على ملخص لهذا المستند بلغتك،
فرجاء الاتصال برقم الهاتف أو الاتصال على
العنوان البريدي العادي أو عنوان البريد
الإلكتروني أعلاه.

Punjabi

ਜੇ ਤੁਸੀਂ ਇਸ ਦਸਤਾਵੇਜ਼ ਦਾ ਸੰਖੇਪ ਆਪਣੀ ਭਾਸ਼ਾ ਵਿਚ ਲੈਣਾ ਚਾਹੋ, ਤਾਂ ਕਿਰਪਾ ਕਰਕੇ ਇਸ ਨੰਬਰ 'ਤੇ ਫ਼ੋਨ ਕਰੋ ਜਾਂ ਉਪਰ ਦਿੱਤੇ ਡਾਕ ਜਾਂ ਈਮੇਲ ਪਤੇ 'ਤੇ ਸਾਨੂੰ ਸੰਪਰਕ ਕਰੋ।

Gujarati

જો તમારે આ દસ્તાવેજનો સાર તમારી ભાષામાં જોઈતો હોય તો ઉપર આપેલ નંબર પર ફોન કરો અથવા ઉપર આપેલ ટપાલ અથવા ઈ-મેઈલ સરનામા પર અમારો સંપર્ક કરો.

Appendix 3 Principles of scrutiny page

An aim for action
An Assembly scrutiny is not an end in itself. It aims for action to achieve improvement.

Independence
An Assembly scrutiny is conducted with objectivity; nothing should be done that could impair the independence of the process.

Holding the Mayor to account
The Assembly rigorously examines all aspects of the Mayor's strategies.

Inclusiveness
An Assembly scrutiny consults widely, having regard to issues of timeliness and cost.

Constructiveness
The Assembly conducts its scrutinies and investigations in a positive manner, recognising the need to work with stakeholders and the Mayor to achieve improvement.

Value for money
When conducting a scrutiny the Assembly is conscious of the need to spend public money effectively.

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