LONDONASSEMBLY

Response to the Mayor's draft consultation budget 2018-19

Budget and Performance Committee

January 2018

Holding the Mayor to account and investigating issues that matter to Londoners

LONDONASSEMBLY

Budget and Performance Committee Members

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The Budget and Performance Committee holds the Mayor to account for his financial decisions and performance across the Greater London Authority. It is responsible for scrutinising the Mayor's budget proposals for the next year, and carrying out investigations across the Mayor's various policy areas, such as transport, police, fire, housing, and regeneration.

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Gareth Bacon AM

Chairman of the Budget and Performance Committee

Keeping London safe should always be the Mayor's number one priority. That is why our committee supports the Mayor's decision to use the powers given by the Government this year and increase council tax to fund London's police service. The Metropolitan Police Service (the Met) must continue to strive for even more efficient working, but the council tax increase does give some breathing space while it modernises.

"We are enormously grateful for the work of London's emergency services."

We were also encouraged to hear that the Government has given the Met a fair hearing in its bid to reclaim the costs it had incurred in dealing with four terror attacks and the Grenfell Tower fire. We hope that it shows similar sense in future, and applies the same flexibility to the London Fire Brigade. We are enormously grateful for the work of London's emergency services.

Transport for London (TfL) is clearly struggling to cope with the financial impact of the fares freeze, and at the same time passenger numbers are falling whilst direct government funding is coming to an end. TfL has had to revise its fares forecast down for the fourth year in a row, and its capital spend (even after adjusting for the Elizabeth line) is set to fall. It has cut its funding for borough schemes, is scaling back bus services and is reducing how much it spends on the trunk road network. All road users will start to feel the effects in the coming years.

Our committee has spent many hours over the last year scrutinising the London Legacy Development Corporation (LLDC) as the full scale of the financial mess it is in becomes increasingly clear. The GLA has now decided the LLDC will only be able to pay back some of its borrowings, and the GLA will effectively have to pay for any further investment in the Olympic Park. This money must come from somewhere, and it is surely true that this could have been put to other uses.

The Mayor's budget will only go so far to address the shortage of affordable housing in London. Progress has been slow so far, and we wait for announcements about the Mayor's Housing Zones and the Government's Housing Infrastructure Fund to see what impact they can have.

Summary

"Under the present circumstances, we support the Mayor's decision to increase his share of council tax by 5.1 per cent."

The most significant development in the Mayor's budget for 2018-19 was his decision to increase his share of council tax by an average of 5.1 per cent, from £280.02 to £294.22 for a Band D property. Under the present circumstances, we support this decision in order to support London's police and fire services.

In our December Pre-Budget Report, we recommended the Mayor should consider increasing his share of council tax by the expected maximum 1.99 per cent. He has now proposed increasing council tax to the new government limits and splitting this between the Metropolitan Police Service (the Met) and the London Fire Commissioner (LFC). If the Mayor had increased the non-police precept by the maximum allowed last year he would have had £4.5 million more available for this year's budget.

This year's increase will generate £47 million for the Met in 2018-19, and will help to alleviate some of the Met's funding pressures. Due to financial constraints, the Mayor has abandoned his strategic target to have 32,000 police officers; his budget is based on 30,000 officers. Maintaining this number in future years may mean more council tax increases if the Met is unable to find further savings, or if police pay is increased or the police grant were to fall. Despite the financial pressure the Met is under, we urge the Mayor to ensure the Met's prevention and early intervention work is protected.

The Mayor has also raised council tax to help fund the LFC, eliminating the savings needed in 2020-21 and 2021-22. We note, however, that there has been a pattern of underspends in recent years. We are particularly concerned about the high level of vacancies within the Brigade.

We are encouraged by indications that the Government is minded to reimburse the Met for the additional costs arising from the 2017 terror attacks and the Grenfell Tower fire. We urge the Government to apply a consistent approach and agree to meet the additional costs incurred by London's fire service.

We are seeing more indications that Transport for London (TfL) is experiencing financial difficulties, and that this will begin to have an impact on services. In particular, fares revenue is lower than expected, and we are not convinced that TfL fully understands why passenger numbers are falling. We are not convinced that this is a "blip", and are concerned that technological and social changes might require a structural downward shift in TfL's fares forecasts, with knock-on effects for services and investment.

The fall in fares revenue, and the end of government revenue funding, have led to TfL cutting its Local Implementation Plan funding to boroughs and suspending its programme of proactive renewals on the road network. These could hinder the Mayor's objective of getting more people walking, cycling and using public transport.

In terms of London's housing crisis, it is clear that the Mayor does not have the funding required to build the affordable housing London needs. In this context, it is vital that the GLA makes use of all the government funding that is available, such as the Housing Infrastructure Fund (HIF). Funding secured through the HIF needs to be spent by March 2021, so the GLA will need to mobilise quickly to ensure this happens and is not liable for any unused money.

The financial problems of the London Legacy Development Corporation (LLDC) continue to cause concern. The Mayor has recognised that the LLDC's borrowing is not sustainable and has set a cap on how much the GLA will lend it. We are not convinced by assurances that the LLDC's financial issues do not have an impact on the rest of the GLA Group. Any further cost increases to the LLDC's capital programme will now fall solely on the GLA; this is money that the Mayor could allocate to other priorities. We welcome the appointment of a Chief Restructuring Officer at the LLDC and look forward to seeing a plan to get the Olympic Stadium onto a more sustainable footing.

Recommendations

Recommendation 1

The Met should provide more detail on the expected impact of Borough Command Unit mergers – particularly in terms of financial savings and operational performance.

Recommendation 2

The Met needs to clearly set out what collaborative projects it will pursue in the next year with other police forces, together with the level of Police Transformation Fund it has applied to receive.

Recommendation 3

MOPAC should collect robust evidence on how the digital policing strategy is expected to improve efficiency and performance in future, and report back to the committee within six months.

Recommendation 4

TfL should carry out and publish detailed research on future passenger numbers, travelling habits and fares revenue.

Recommendation 5

TfL should provide further analysis on plans for its bus service, including a breakdown of bus service mileage in central, inner and outer London for each year from 2016-17 to 2022-23.

Recommendation 6

In response to this report, TfL should write to us to explain how it measures road conditions and what level of deterioration is expected each year to 2021-22 due to the budgeted cut in road maintenance and renewals.

Recommendation 7

The Mayor should provide a list of Housing Infrastructure Fund bids made across the GLA Group, detailing the value of each bid and giving a brief explanation of what it is hoping to achieve.

Recommendation 8

Once the January deadline has passed, the Mayor should provide a list of the successful Housing Zones, giving the name of each zone, the level of funding agreed, and a narrative explaining what the zone is expected to deliver. For Housing Zones without funding, the Mayor should provide an explanation of next steps.

Recommendation 9

The LLDC's Chief Restructuring Officer should write to the committee within six months, setting out a clear and detailed action plan to improve the finances of the Stadium.

1. Introduction

- Under the present circumstances, we support the Mayor’s decision to increase council tax in 2018-19 to support London’s police and fire services.
- We recognise improvements to the quality of the draft budget document in recent years, but call for better disclosure of contentious or unusual items in future.

1.1 Our scrutiny of the Mayor's budget for 2018-19 has focused on three key issues: the Mayor's decision to increase council tax by 5.1 per cent, the decline in TfL's fares income, and the ongoing financial problems at the London Legacy Development Corporation. While the Met's budget is looking less pressured in future years than previously feared, our concerns for TfL's finances continue to grow. The problems at the LLDC remain unresolved.

1.2 The Mayor's key decision this year was to increase council tax to provide additional funding for London's police and fire services. The Police Funding Settlement allowed local authorities to increase the police precept for Band D properties by £12. Together with a 2.99 per cent increase to the non-police precept element, this works out as a 5.1 per cent increase to the Mayor's share of council tax bills in London (from £280.02 to £294.22 for a Band D property).

1.3 Under the present circumstances, we support the Mayor's decision to increase council tax. The Mayor told us that the Government did not just give local authorities the option to increase the police precept, but that "there was an expectation" from government that authorities should implement the £12 increase in full.[1] We therefore recognise that the Mayor needed to make this increase – not only to provide additional funding, but to strengthen his negotiating position on central government funding. The budget document states the Government is minded to repeat this £12 increase again next year.[2]

1.4 As the Mayor explained to us, the lateness of the Police Funding Settlement added complexity to the budget-setting process. In light of the tight deadlines involved, the draft consultation budget simply presented this additional funding as "unallocated income".[3] We therefore expect the consolidated budget to provide an indication of how this will be allocated.

1.5 We recognise the budget document has to strike a balance between length and detail. But there are some areas where further information would have been helpful – particularly where unusual or contentious information is concerned. The most striking example of this was the inclusion of forecast proceeds to TfL from a novel sale and leaseback deal on some of its rolling stock within the budget line "capital receipts / property sales".[4] This deal was only uncovered as a result of our questioning. Separating this information out in a more transparent way, particularly for the large capital receipts expected for several of the GLA Group organisations in the coming years, would have been more helpful to users of the budget document. We would also like the next draft to provide more detail on environmental programmes, particularly those addressing carbon emissions and fuel poverty – an issue that we raised in our Pre-Budget Report.[5]

1.6 We are pleased to report that the quality of the consultation budget document has improved over time – often in response to feedback from this committee. We also note the constructive approach of GLA officers during recent months and would welcome further dialogue with officers later this year regarding potential improvements for next year's budget.

2. Police

- The Mayor has increased council tax by £12 per average household to help fund the Met, raising £47 million in 2018-19.
- This goes some way to relieving the Met’s funding pressures, but there is still uncertainty ahead.
- The Met will now have 30,000 police officers in 2018-19, and maintaining this number in future years may mean further council tax increases.
- We urge the Mayor to ensure the Met’s budget protects prevention and early intervention work to keep young people away from crime.

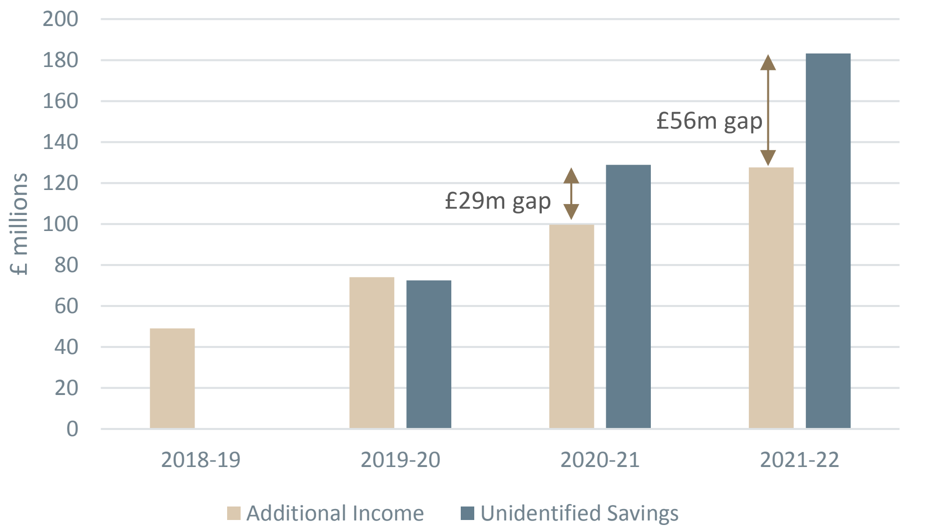
2.1 2017 was a tough year for the Met. Crime increased by almost 6 per cent, and high-harm crime rose by 19 per cent.[6] London was struck by four terrorist incidents at Westminster, London Bridge, Finsbury Park and Parsons Green – an increase widely seen as a shift in frequency rather than a spike.[7] And, in June, we had the awful fire at Grenfell Tower.

Increase in council tax

2.2 On 19 December, just two days before the Mayor published his draft budget, the Government published its Police Funding Settlement for 2018-19. This kept the police grant flat in cash terms, but allowed the Mayor to raise the police council tax precept by £12 for the average Band D property – an increase of 5.8 per cent in London. In the Mayor's draft budget, the council tax increase is estimated to raise £47 million extra in 2018-19 compared to 2017-18 (or an additional £23.1 million if compared with the previous assumption of a 1.99 per cent increase).[8]

2.3 This extra resource will help alleviate some of the funding pressure the Met has estimated it faces over the next four years. The Met has already identified £184.9 million of savings and efficiencies from its budget over that period, but still needs to find a further £183.3 million by 2021-22.[9] £127.7 million raised through council tax increases could alleviate 70 per cent of MOPAC's unidentified savings.

Figure 1: By 2021-22 the Met will still need to find £56 million of savings



Source: [Mayor's Consultation Budget 2018-19](), table on page 24.

2.4 While the additional funding for the Met is welcome, there remain a number of factors that will affect the Met's budget for 2018-19 and beyond. Future increases in pay for officers and staff are unknown, and it is not clear to what extent they might be funded or part-funded by government, and what mixture of consolidated and non-consolidated pay might be involved. There may be changes to the police grant beyond 2018-19, and the Government may make further changes to the levels of council tax the Mayor can set. The budget takes a prudent approach in assuming a 1.99 per cent annual increase to the police precept, but also states that the Government "has indicated it is minded to repeat the £12 council tax flexibility for policing in 2019-20". If the Government did allow this further increase, and the Mayor implemented it, the Met's budget would increase accordingly in later years.

2.5 The Mayor's claim that the Police Funding Settlement is "smoke and mirrors" and that "this [extra] money just goes into paying for the police pay increase" cannot be proven because we do not yet know the size of the increase.[10] It is true that any increase in pay would have come from the Met's budget. But the £12 council tax flexibility has generated £47 million of extra resource for the Met in 2018-19; the budget document states that every additional percentage point increase in officer and staff pay costs £25 million a year. Since the Met has already budgeted for a one per cent increase in pay for every year and a 1.99 per cent increase in council tax, it would take a three per cent increase in pay for the whole of the "Income to be allocated by the Mayor" budget line to be used up.

Officer numbers

2.6 The Mayor has now officially confirmed that he has dropped his strategic target of 32,000 officers due to funding pressures.[11] The Met's budget is now based on 30,000 officers, which will save £100 million every year in officer pay – this is by far the biggest savings programme that the Met has in the next four years. [12]

2.7 The Met cannot afford to maintain 30,000 officers in future without finding other savings or securing more funding. Assuming the Government maintains its police grant flat in cash terms, this could mean council tax increases above the 1.99 per cent assumed in the years 2019-20 to 2021-22. Further savings could come from the Met's estates strategy expected shortly. We will continue to monitor this situation.

2.8 The Met has not yet provided any hard evidence for how many officers it needs. In our report, *Who's Paying the Bill?,* we recommended that "Police officer numbers should be set by evidence based on the level of service required across London; and the current boroughs and future merged Borough Command Units".[13] We argue that the Met would be in a stronger negotiating position with government if it could demonstrate the need for a certain number of officers with solid research and evidence.

Recommendation 1

The Met should provide more detail on the expected impact of Borough Command Unit mergers – particularly in terms of financial savings and operational performance.

Other sources of funding

2.9 It is vital that the Met secures other sources of funding. We are pleased that the Government appears to be listening to the Met and has indicated that it will allow a claim to be made for Police Special Grant in light of the terrorist incidents in London this year as well as the fire at Grenfell Tower. The Met has estimated the additional cost of the London Bridge attack alone to be approximately £10 million, while the Grenfell Tower investigation will cost the Met £11 million in 2017-18 and £27 million in 2018-19, and involve 200 officers.[14] However, the Government continues to ignore the calls of the Mayor, the Assembly and its own Home Office Executive Scrutiny Panel when it comes to funding the Met the full amount it claims it deserves from the National and International Capital Cities (NICC) grant. The Met also needs to make greater use of the Police Transformation Fund and to do so it needs to collaborate more with forces outside of London – something this committee has called for in previous years. The Mayor has said the Commissioner is fully committed to greater collaboration. This is welcome but we would like to see concrete evidence of this.

Recommendation 2

The Met needs to clearly set out what collaborative projects it will pursue in the next year with other police forces, together with the level of Police Transformation Fund it has applied to receive.

Digital policing

2.10 Our previous concerns over IT savings have sadly proved accurate and we are disappointed that our warnings, first set out in 2013, were not properly addressed. The focus is clearly now on achieving performance improvements from the investment that has been made, and limited financial savings are expected. The Mayor told us that:

> "I do not want the impression to be created that updating the outdated technology will lead to massive savings … the priority is proper policing".[15]

2.11 Proper policing should of course be the priority, but we have asked MOPAC and the Met to quantify the expected improvements in efficiency and performance that stem from digital investment before. We have not been convinced, and are asking MOPAC and the Met to demonstrate what they mean by improvement. We will continue to hold MOPAC and the Met to account for the money invested in the digital policing strategy.

Recommendation 3

MOPAC should collect robust evidence on how the digital policing strategy is expected to improve efficiency and performance in future, and report back to the committee within six months.

2.12 We understand that the squeeze on funding and rising demand means that the Met has to prioritise. But we are concerned to hear that funding pressures are affecting prevention work too. We are particularly concerned that the Mayor has said that the number of Safer Schools Officers could reduce. On a purely financial basis, prevention work is an investment that saves money in the long run. More importantly, it can change people's lives and keep people away from the criminal justice system. We urge the Mayor to ensure that prevention and early intervention remain a top priority for the Met.

3. Fire

- The Mayor has also raised council tax to help fund the London Fire Commissioner, eliminating the savings needed in 2020-21 and 2021-22.
- There has been a pattern of underspends in recent years. We are particularly concerned about the high level of vacancies within the Brigade.
- We urge the Government to fund the additional costs incurred in responding to the Grenfell Tower fire.

3.1 As well as raising the council tax precept, the Mayor has also increased both the non-police council tax precept and the budget of the London Fire Commissioner (LFC). After adjusting for a small reduction in business rates income, the Mayor has provided additional funding to the LFC equal to a 1.99 per cent increase in the non-policing element of council tax. This means that the LFC will receive £4.4 million extra income in 2018-19 and that by 2021-22 the increased income will eliminate its previously forecast savings required in 2020-21 and 2021-22.[16]

3.2 We are concerned that there appears to be a pattern of revenue underspends at the LFC. In 2017-18 the LFC (then LFEPA) is forecast to underspend by £5.3 million, and it previously underspent by £9.9 million in 2016-17 and £11.4 million in 2015-16. We understand that the LFC has had extenuating circumstances behind each underspend but will look for more accurate budgeting from the LFC in future.

3.3 We are particularly concerned about staffing underspends and high levels of vacancies. The LFC budget for 2018-19 is based on a vacancy margin of £5.3 million, £3.7 million more than its baseline. While this should mean that there is no staffing underspend in 2018-19, we are concerned that the LFC is planning for an average 125 vacancies across the year. This shows a Fire Brigade that is significantly understrength. We look forward to seeing how suspension of the LFB's London residency requirement will impact its recent recruitment campaign.

3.4 We support the LFC's bid under the Bellwin Scheme for qualifying additional costs associated with the fire at Grenfell Tower. We were pleased to hear that the Home Office is looking favourably on the Met's bid for extra funding after both the Grenfell fire and the terrorist incidents, and urge the Ministry of Housing, Communities and Local Government to be equally supportive of the LFC. We will write to the Government on this issue.

4. Transport

- We are seeing more indications that TfL is experiencing financial difficulties, and that this will begin to have an impact on services.
- Fares revenue is well behind budget, and we are not convinced that TfL has a solid understanding of the reasons for a fall in passenger numbers.
- Having to revise forecasts downwards in-year forces TfL to make tough decisions elsewhere – such as cuts to LIP funding for boroughs. This funding was intended to support a key Mayoral priority to get more people walking, cycling and using public transport.
- Technological and social changes may require TfL to make a structural downwards adjustment to its fares revenue forecasting, with consequences for its ability to invest in London’s transport network.
- The figures in the draft budget don’t back up the Mayor’s claim that he is investing “record amounts in modernising our transport infrastructure”.
- Road conditions will start to deteriorate as TfL has suspended its programme of proactive renewals on the road network.

4.1 TfL continues to face significant financial pressure. As we concluded in our September 2016 report, *TfL's financial challenge*, these are tough times for TfL.[17] 2018-19 will be the first year that TfL operates without any revenue support from central government. And, despite making savings, falling passenger numbers means that TfL's finances are worse than previously expected.

4.2 Since we published our report in 2016 we have seen more signs of financial stress. TfL is cutting its funding to boroughs, and suspending its programme of renewals on the road network. It also plans to cut bus services by 7 per cent over the next five years. In October, TfL decided to cancel its plans to buy new trains that would increase capacity on the Jubilee and Northern lines. It had previously described the Jubilee line upgrade as one of the London Underground's "lowest risk and highest benefit projects", that – with reference to financial pressures – should be preserved "in all scenarios".[18]

4.3 While London's transport system will not suffer immediately from these decisions, Londoners will start to see the effects over the next few years. Cancelling capacity upgrades on the London Underground and cutting bus services may increase overcrowding. Failing to invest in road renewals will lead to a deterioration in road conditions that could, over time, make the roads less safe and reliable. And cutting funding to boroughs will slow progress on the Mayor's Healthy Streets agenda, which is intended to improve London's streets for walking, cycling and public transport.

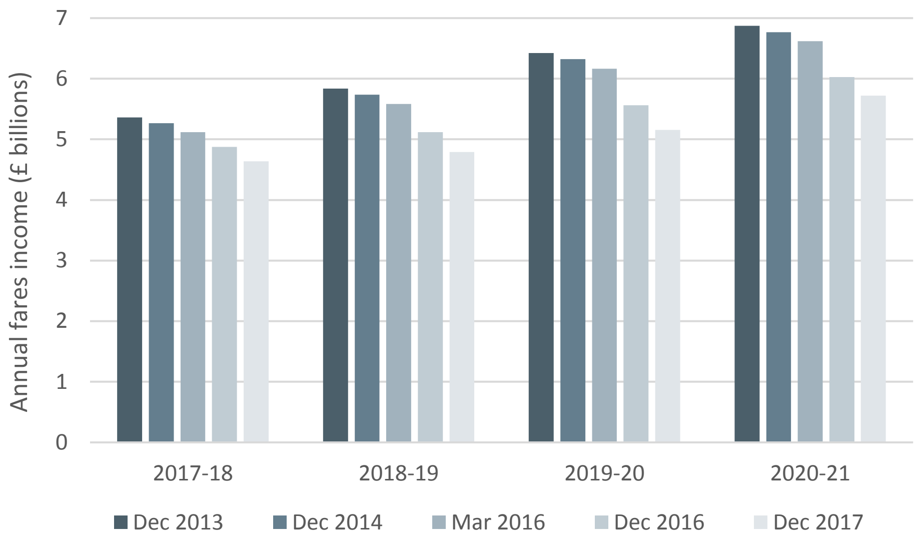
4.4 Another sign that TfL is under financial pressure is that the organisation plans to enter into its first rolling stock sale and leaseback agreement. TfL plans to sell some of its rolling stock to fund new capital investment on the Piccadilly line, and will then pay to lease the rolling stock back.[19] TfL has argued that this approach is not unusual in the rail industry, but we think that this is the first time that TfL has had to resort to a sale and leaseback arrangement on its rolling stock. We are further concerned by the fact that this deal has not appeared in any of TfL's Board or committee papers, and was disclosed in the draft budget within the somewhat unhelpful line "capital receipts / property sales".[20] We have asked TfL for more information about this deal and may investigate further.

Fares forecasting

4.5 The main reason that TfL's financial position is worse than expected is that its passenger numbers and fares revenue are well behind budget. Last year's budget showed that TfL would make £4,878 million on fares in 2017-18, but TfL is now forecasting that it will make only £4,638 million – £240 million less than expected. Passenger numbers on both the London Underground and the buses have fallen.

4.6 We have repeatedly raised concerns around TfL's overly-optimistic forecasts, in our 2015, 2016 and 2017 Pre-Budget Reports. This is the fourth time in four years that TfL has had to revise down its forecasts on passenger numbers. The Commissioner told us that we should be "delighted" with such a small margin of error. But consistently producing over-optimistic forecasting points to a systemic weakness in TfL's approach. It is even more important that TfL produces accurate fares forecasts now that TfL has no government funding to act as a cushion. Fares income accounts for 40 per cent of the budgeted income for the whole GLA Group in 2018-19 so there is a lot of risk here.[21]

Figure 2: TfL has revised down its fares forecasts four times in four years



Source: TfL business plans 2013 to 2017.

4.7 We are not convinced that TfL has a solid understanding of the underlying reasons for the fall in passenger numbers. If the fall in passenger numbers is primarily down to short-term economic factors, then it may be reasonable for TfL to predict an upswing. But if it is down to lifestyle changes – with more people working from home, shopping online, and using ride hailing apps – then this upswing may not materialise. TfL may be facing a structural and permanent change to its fares revenue, rather than simply experiencing the temporary "blip" the Mayor and Commissioner referred to.[22] We want TfL to do more work on this complex topic and will discuss this with the organisation over the coming months.

4.8 TfL's forecasts on bus fares look particularly optimistic. Given the Mayor's fares freeze and the Hopper fare, the only way that TfL can increase fares revenue is by increasing passenger numbers. It is planning to reduce bus services in London (as measured by kilometres of service provided) by almost 7 per cent by 2022-23 through some combination of reducing the number of routes or the frequency of service. Yet TfL expects bus passenger numbers to go up by 3.5 per cent over the same period.[23]

4.9 We have concerns about such a large drop in service, despite the Mayor's reassurances that bus passenger numbers don't directly map to service capacity. TfL and the Mayor explained that, by improving the bus network, they could increase passenger numbers while cutting services. They intend, for instance, to move capacity out of central London, where demand has dropped, into outer London, where demand is growing. To get a fuller picture, we ask TfL to provide further analysis of bus service provision, passenger numbers and fares revenue over the coming years.

4.10 The Elizabeth line (Crossrail) will provide TfL with a much-needed boost to fares revenue when it opens in December 2018. The Deputy Mayor for Transport, however, highlighted that this project was a key risk for TfL. While she was confident that it is on track, any slippage could have serious implications for TfL's Business Plan in terms of lost revenue. Even assuming the Elizabeth line opens to time, it is hard to make forecasts for new services, and to model the impact they will have on existing services. We hope that the Elizabeth line continues to progress as planned, and that it generates the revenue that TfL expects.

Recommendation 4

TfL should carry out and publish detailed research on future passenger numbers, travelling habits and fares revenue.

Recommendation 5

TfL should provide further analysis on plans for its bus service, including a breakdown of bus service mileage, passenger numbers and fares revenue in central, inner and outer London for each year from 2016-17 to 2022-23.

Cuts to borough funding

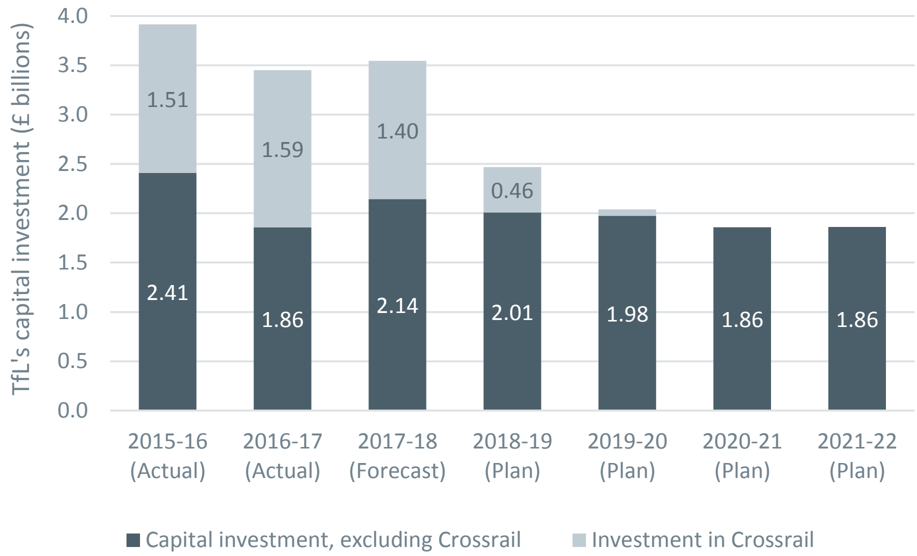
4.11 TfL is cutting the Local Implementation Plan (LIP) funding it gives to boroughs. This funding is intended to support the Mayor's Healthy Streets approach, helping boroughs to get more people walking, cycling and using public transport. LIP funding will fall by 15 per cent, from £204 million in 2017-18 to £174 million in 2018-19. This is despite TfL having said in its December 2016 Business Plan that it was "committed to maintaining funding for Local Implementation Plans at current levels".

4.12 Unexpected cuts to borough funding risk damaging TfL's relationship with the boroughs. London Councils wrote to the Deputy Mayor for Transport, explaining that it was "disappointed that London Councils and the boroughs [were not] formally engaged to discuss funding reductions to LIP and Taxicard prior to [TfL] announcing a new settlement". LIP funding may now be seen as an easy target in future budget rounds, but boroughs need to have confidence in TfL as a partner if they are to commit to projects which will help the Mayor's Healthy Streets agenda. In his draft Transport Strategy, the Mayor depends heavily on the boroughs to deliver much of the benefits of healthy streets. TfL has confirmed that the Mayor will only invest £111 million in cycling in 2018-19 – lower than the average £154 million per year promised in TfL's Business Plan.[24]

Capital investment in transport

4.13 The figures in the draft budget don't back up the Mayor's claim that he is investing "record amounts in modernising our transport infrastructure". TfL's Business Plan shows that TfL's capital investment (even stripping out Crossrail) will be lower in each of the next four years than it was in 2017-18. When we questioned the Mayor on his claim, he argued that the capital programme was still the "most ambitious ever", because TfL was making savings and achieving more with less. We obviously welcome efforts to maximise value for money. But the facts are clear: TfL's capital expenditure is going down, not up.

Figure 3: TfL's capital spend will fall over the next four years



Sources: TfL Business Plan 2016, p26-27 and TfL Business Plan 2017, p30-31.

4.14 We are particularly concerned about the fall in TfL's capital renewals. TfL's capital investment programme is split into two parts: new capital investment to increase capacity and reliability, and capital renewals to maintain assets in a good state of repair. In its December 2016 Business Plan, TfL set out that it would spend £3.64 billion on capital renewals in the four years from 2017-18 to 2021-22. It is now planning to spend £3.01 billion - £630 million less over the same period.[25] We are concerned that this will mean that the condition of London's roads, trains and stations will deteriorate.

4.15 Part of the fall in capital renewals is because TfL has suspended part of its street maintenance and renewals programme. This has taken £200 million out of the capital budget over the next four years. TfL will continue to fix problems on the TfL road network where they are reported, but will no longer carry out proactive work to check and maintain the roads. Its Business Plan states that this will mean a "slight dip in asset conditions from current levels".[26] This approach is not sustainable and could cause long-term damage if it continues beyond a few years.[27] We also want some clarity on what TfL means by a "slight dip"; TfL is a data-rich organisation and should be able to quantify this more carefully.

4.16 One source of funding that could help maintain London's roads is Vehicle Excise Duty (VED). We agree with the Mayor (and the London Finance Commission) that TfL should receive its fair share of the UK's VED to help fund its street maintenance and renewals programme. Londoners pay £500 million a year in VED that is invested in roads outside the capital.[28] We will write to the Treasury to help make the case.

Recommendation 6

In response to this report, TfL should write to us to explain how it measures road conditions and what level of deterioration is expected each year to 2021-22 due to the budgeted cut in road maintenance and renewals.

5. Housing

- The Mayor does not have the funding required to build the affordable housing London needs.
- It is vital that the GLA makes use of all available government funding, such as the Housing Infrastructure Fund.
- The Mayor will shortly announce which Housing Zones will receive funding, and which will not.
- The London Housing Bank has made a negligible impact and negotiations with government to make it a more attractive option have been unsuccessful.

5.1 There is a big funding gap between what London needs and what the Mayor can deliver in terms of affordable housing. The latest assessment shows that London needs 43,500 new affordable homes each year.[29] The GLA has calculated that it would need £2.7 billion a year to meet London's needs on affordable housing. It told us that its budget for affordable housing is currently around £0.5 billion a year.[30]

Bids to the Housing Infrastructure Fund

5.2 Given the funding gap, it is vital that the GLA makes the most of any government funding available, such as through the Housing Infrastructure Fund. We discussed the OPDC's £250 million bid for transport and utilities infrastructure at Old Oak North, and are aware that various other parts of the GLA Group have also submitted bids – it is not clear how many bids were made or how well co-ordinated they were. If successful, these will unlock areas for growth and speed up house building.

5.3 The outcome of the bidding process for the Housing Infrastructure Fund may impact on the Mayor's budget, as it is important that any successful bids are properly resourced. Projects will be shortlisted over the coming weeks, and the Government is expected to make its final decision around September 2018.[31] One of the conditions of funding is that it should be spent before March 2021, and the GLA may be exposed to financial risk if it misses this deadline.[32]

Recommendation 7

The Mayor should provide a list of Housing Infrastructure Fund bids made across the GLA Group, detailing the value of each bid and giving a brief explanation of what it is hoping to achieve. He should also explain how the GLA co-ordinated its bids to maximise its chances of success.

Housing Zones

5.4 The Mayor is now focusing his Housing Zones funding on a smaller number of Zones. Under this programme, 30 areas of London with high potential for growth were identified as "Housing Zones", and would between them receive up to £600 million of funding to speed up development. The GLA has recently carried out a review to "shake out" Housing Zones which aren't on track. Any Housing Zones which aren't in contract with the GLA by the end of January 2018 will lose their funding.[33]

5.5 It is not clear what will happen to the Housing Zones which do not receive any Housing Zones funding. The GLA suggested that they may be able to access other forms of funding, but has not set out the next steps.[34]

Recommendation 8

Once the January deadline has passed, the Mayor should provide a list of the successful Housing Zones, giving the name of each zone, the level of funding agreed, and a narrative explaining what the zone is expected to deliver. For Housing Zones without funding, the Mayor should provide an explanation of next steps.

London Housing Bank

5.6 Spending through the London Housing Bank continues to fall well behind budget. The scheme aims to accelerate housing supply by getting developers to complete homes ahead of timetable, and is funded through a £200 million loan from the Ministry of Housing, Communities and Local Government (MHCLG – previously DCLG). The GLA in turn is supposed to lend money to developers to support delivery of 3,000 affordable homes. Since the scheme was launched in 2013, however, the GLA has only contracted one deal through the London Housing Bank, which was worth around £21 million.[35]

5.7 The Mayor told us that the Government attached conditions to this money that made it a relatively unattractive option. The GLA has made efforts to renegotiate these terms with government, but without success. It is looking increasingly likely that this funding will be lost.

6. London Legacy Development Corporation

- The Mayor has recognised that the LLDC's borrowing is not sustainable – and has set a cap on how much the GLA will lend it.
- The Mayor needs to recognise that providing direct capital investment above the cap will have consequences on the rest of the GLA.
- Any further cost increases to the LLDC's capital programme will now fall solely on the GLA.
- We welcome the appointment of a Chief Restructuring Officer and expect to see a more detailed plan within the next six months that will get the Olympic Stadium onto a more sustainable footing.

6.1 The finances of the London Legacy Development Corporation (the LLDC) continue to deteriorate, with consequences for the rest of the GLA Group. The GLA has reviewed the LLDC's capital budget and decided to cap the amount it can lend the LLDC to £520 million in total. The GLA, however, estimates that the LLDC needs £822 million by 2022-23 to fund its capital investment programme. The GLA will provide the additional £302 million through a mixture of direct revenue funding from the GLA (£14.9 million in 2018-19 and a cumulative £51.3 million over the next four years) and capital funding from the GLA Land and Property Company (GLAP).[36] We have been repeatedly told that this funding has no consequences on other parts of the GLA family, but this is surely money that the Mayor could have allocated to other priorities.[37]

6.2 The cap on borrowing, and the withdrawal of LB Newham from the E20 partnership, means that the funding gap of £302 million now falls solely on the GLA. Any change in estimates – if £822 million was revised to £900 million for example – will fall on the GLA and will take even more money away from other GLA priorities. The opportunity cost is particularly of concern as LLDC's performance has been disappointing, for example in relation to delivering affordable housing in the Park, and the delayed start to the Cultural and Education District. If past performance is anything to go by, costs may increase and now the GLA alone will bear the burden. We will monitor this carefully in the next year.

6.3 The Mayor has now also recognised that the LLDC will never be a profitable venture in revenue terms. The LLDC has explicitly said that the Fixed Estate Charge on homeowners and businesses on the site will not generate sufficient income to cover operating costs.[38] The Mayor and his team are now focusing on the socio-economic benefits that the Park brings, plus the extra council tax and business rates income it will generate. We do not dispute these benefits, but we note a change in tack after years of the LLDC insisting that it would be a profitable venture, or would at least break-even. The changing fortunes of the LLDC brings the role of Mayoral Development Companies (MDCs) into question. Can an MDC ever be profitable? Should it try to be?

6.4 The revelations around the Olympic Stadium's financial burden have been troublesome this year, and the LLDC knows it has a lot of work to do. The LLDC has promised an improvement in Stadium finances and we have been encouraged by what the LLDC told us this January. We welcome the appointment of a Chief Restructuring Officer with experience of turning around struggling businesses. In our Pre-Budget Report we asked the Mayor for an action plan to get the Stadium back on track. We now extend this ask to the Chief Restructuring Officer and hope to see a change in fortunes in the near future.

Recommendation 9

The LLDC's Chief Restructuring Officer should write to the committee within six months, setting out a clear and detailed action plan to improve the finances of the Stadium.

Our approach

The Budget and Performance Committee held a series of meetings in January 2018 to scrutinise the Mayor's draft consultation budget for 2018-19:

3 January 2018 – London Legacy Development Corporation

- Sir Peter Hendy CBE, Chair, LLDC
- Gerry Murphy, Executive Director of Finance and Acting Chief Executive, LLDC
- Martin Clarke, GLA Executive Director of Resources

3 January 2018 – Transport for London

- Valerie Shawcross CBE, Deputy Mayor for Transport
- Mike Brown MVO, Commissioner for Transport, TfL
- Simon Kilonback, Interim Chief Finance Officer, TfL
- Sarah Bradley, Group Financial Controller, TfL

4 January 2018 – Old Oak and Park Royal Development Corporation

- Victoria Hills, Chief Executive Officer, OPDC
- Doug Wilson, Chief Operating Officer, OPDC

4 January 2018 – Mayor's Office for Policing and Crime, Metropolitan Police Service

- Sophie Linden, Deputy Mayor for Policing and Crime, MOPAC
- Siobhan Peters, Chief Financial Officer, MOPAC
- Deputy Commissioner Craig Mackey, Metropolitan Police Service
- Lynda McMullan, Director of Finance, Metropolitan Police Service

4 January 2018 – London Fire and Emergency Planning Authority, London Fire Brigade

- Dr Fiona Twycross AM, Chair, London Fire and Emergency Planning Authority
- Steve Apter, Director of Safety and Assurance, London Fire and Emergency Planning Authority

- Sue Budden, Director of Financial and Contractual Services, London Fire and Emergency Planning Authority

9 January 2018 – Mayor of London

- Sadiq Khan, Mayor of London
- David Bellamy, Mayor's Chief of Staff
- Martin Clarke, GLA Executive Director of Resources
- David Gallie, GLA Assistant Director – Group Finance

It also held a number of other meetings in 2017 to collect evidence on various elements of the Mayor's budget:

13 June 2017 meeting to examine funding for the Metropolitan Police Service. Guests included:

- Sophie Linden, Deputy Mayor for Policing and Crime, MOPAC
- Deputy Commissioner Craig Mackey, Metropolitan Police Service
- Lynda McMullan, Director of Finance and Commercial, Metropolitan Police Service
- Siobhan Peters, Chief Financial Officer, MOPAC

19 July 2017 meeting to discuss funding for the Metropolitan Police Service. The following guests gave evidence:

- Dr Rick Muir, Director, Police Foundation
- Ken Marsh MBE, Chair of the Executive Committee, Police Federation
- Matt Parr CB, Her Majesty's Inspector to the Metropolitan Police Service
- Sara Thornton CBE QPM, Chair of the National Police Chief's Council

Also at the 19 July meeting, the committee examined the Mayor's Budget Guidance for 2018-19. The following guests gave evidence:

- David Bellamy, Mayor's Chief of Staff
- Martin Clarke, Executive Director – Resources, GLA
- Tom Middleton, Head of Finance & Governance, GLA

28 September 2017 meeting to examine TfL's capital spending and other financial issues. Guests included:

- Simon Kilonback, Interim Chief Finance Officer, TfL
- Tanya Coff, London Underground Finance Director, TfL

- Stuart Harvey, Director for Major Projects, TfL
- Alex Williams, Director for City Planning, TfL
- Andrew Pollins, Transformation Director, TfL

22 November 2017 meeting to assess the Mayor's initial 2018-19 budget proposals for the GLA. The following representatives from the Mayor's Team and the GLA attended:

- David Bellamy, Mayor's Chief of Staff
- Martin Clarke, Executive Director – Resources, GLA
- Fiona Fletcher-Smith, Executive Director of Development, Enterprise and Environment, GLA
- David Lunts, Executive Director of Housing and Land, GLA

References

[1] Mayor of London, Sadiq Khan, speaking to Budget and Performance Committee 9 January 2018.

[2] Mayor's Consultation Budget 2018-19, page 95.

[3] Mayor's Consultation Budget 2018-19, table on page 24.

[4] Mayor's Consultation Budget 2018-19, TfL draft capital plan on page 69.

[5] Budget and Performance Committee, Pre-Budget Report 2017, page 40.

[6] MOPAC, MOPAC Budget Submission 2018-19, 8 December 2017, page 1 Executive Summary.

[7] Described as a “shift rather than a spike” by the Mayor as well as Ben Wallace MP, Security Minister.

[8] Mayor's Consultation Budget 2018-19, page 8; £23.1 million figure provided by GLA Finance team via email to officers.

[9] MOPAC, MOPAC Budget Submission 2018-19, 8 December 2017, page 15 Annex 1; Mayor's Consultation Budget 2018-19, table on page 24 – “Savings to be identified”.

[10] Mayor of London, Sadiq Khan, speaking to Budget and Performance Committee 9 January 2018.

[11] Mayor of London, Sadiq Khan, speaking to Budget and Performance Committee 9 January 2018.

[12] MOPAC, MOPAC 2018-19 Budget Submission, Annex 1 Page 15.

[13] Budget and Performance Committee, Who's Paying the Bill, page 37.

[14] Met Director of Finance, Lynda McMullan, speaking to Budget and Performance Committee 4 January 2018.

[15] Mayor of London, Sadiq Khan, speaking to Budget and Performance Committee 9 January 2018.

[16] Mayor's Consultation Budget 2018-19, page 83.

[17] Budget and Performance Committee, Transport for London's financial challenge.

[18] TfL Rail and Underground Panel paper, Jubilee and Northern lines additional train procurement, 24 February 2016.

[19] Simon Kilonback (Interim Chief Financial Officer, TfL) explained the sale and leaseback deal when speaking to Budget and Performance Committee on 3 January 2018.

[20] Mayor's Consultation Budget 2018-19, table on page 69 – TfL draft capital plan.

[21] Mayor's Consultation Budget 2018-19, table on page 10.

[22] Mike Brown MVO, Commissioner of Transport for London, speaking to Budget and Performance Committee 3 January 2018 and Mayor of London, Sadiq Khan, speaking to Budget and Performance Committee 9 January 2018.

[23] TfL, December 2017 Business Plan, page 35.

[24] TfL, December 2016 Business Plan, page 12.

[25] TfL, December 2016 Business Plan, page 26; TfL, December 2017 Business Plan, page 30.

[26] TfL, December 2017 Business Plan, page 63.

[27] Valerie Shawcross (Deputy Mayor for Transport) explained this when speaking to Budget and Performance Committee on 3 January 2018.

[28] TfL, December 2017 Business Plan, page 7.

[29] Draft London Plan, policy 4.5.1, which refers to figures from the Strategic Housing Market Assessment.

[30] £2.7 billion figure (on need) and £0.5 billion figure (on current budget) set out by David Lunts (Executive Director of Housing and Land, GLA), speaking to Budget and Performance Committee on 22 November 2017.

[31] Expected timings set out by Victoria Hills (Chief Executive Officer, OPDC), speaking to Budget and Performance Committee on 4 January 2018.

[32] Financial risk explained by David Gallie (Assistant Director for Group Finance, GLA), speaking to Budget and Performance Committee on 9 January 2018.

[33] David Lunts (Executive Director of Housing and Land, GLA), speaking to Budget and Performance Committee on 22 November 2017.

[34] David Lunts (Executive Director of Housing and Land, GLA), speaking to Budget and Performance Committee on 22 November 2017.

[35] Progress on the London Housing Bank set out by David Lunts (Executive Director of Housing and Land, GLA), speaking to Budget and Performance Committee on 22 November 2017.

[36] Mayor's Consultation Budget 2018-19, table on page 17, “Provision for repayment of debt/other grant payments – LLDC”; Mayor's Consultation Budget 2018-19, table 4 on page 60.

[37] Martin Clarke (Executive Director of Resources, GLA), speaking to Budget and Performance Committee 3 January 2018.

[38] Acting Chief Executive of the LLDC, Gerry Murphy, speaking to Budget and Performance Committee 3 January 2018.

Other formats and languages

If you, or someone you know, needs a copy of this report in large print or braille, or a copy of the summary and main findings in another language, then please call us on: 020 7983 4100 or email: assembly.translations@london.gov.uk.

Chinese

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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

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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

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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

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Arabic

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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

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