

## **Pre-Budget Report 2009**

October 2009





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The Budget and Performance Committee scrutinises the Mayor's budget proposals and holds the Mayor and his staff to account for financial and general performance.

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# Chairman's Foreword



Much has changed since we produced our pre-budget report this time last year.

The external context has been completely transformed, as the pressures resulting from the relatively high inflation of 2008 have been replaced by the prospect of increasingly tight financial constraints as a result of the recession.

The internal context is also very different. In October 2008, the GLA group was in the early stages of making the transition from one mayor to another – we were all learning a new set of rules. Now, almost 18 months into the new administration, the transition period is over. The Mayor's priorities and policies are becoming clearer and the pace of organisational change that inevitably characterised the early months has begun to abate.

The challenges that now face the Mayor in setting a budget for the GLA group for 2010/11 are therefore fundamentally different. The Mayor's aspiration to freeze the GLA group precept has different and more significant consequences in a context where it is reasonable to expect government grants to reduce over coming years; income from fares, capital receipts and interest are likely to be much lower than had previously been expected; and investment in capital projects is likely to be much harder to attract.

These consequences will be most apparent during the process of setting the budget for the GLA group, and particularly the Metropolitan Police Service for 2011/12 onwards, as the anticipated reduction in central government grant begins to bite and savings become increasingly difficult to find. The Mayor is going to come under increasing pressure in his efforts to maintain frontline services whilst also freezing the council tax precept. We call on the Metropolitan Police Service to conclude its work on developing a measure of police capacity. This is essential in order that there can be an informed debate about the options as we get closer to the inevitable point, possibly this time next year, when Mayor has to choose between increasing the council tax precept and reducing police officer numbers.

Transport for London is already suffering the consequences of having to reduce its expectations of income from fares as fares revenue drops as a result of the recession.

The London Development Agency is facing reductions in expenditure to the extent that its budget for 2010/11 will be 20 per cent less than previously expected, and its programme budget in 2012/13 will be around 60 per cent of its equivalent budget in 2008/09. In the context of these pressures it is particularly worrying that we do not find ourselves able to express confidence in the London Development Agency's ability to forecast and budget accurately, nor its internal controls, management oversight and assurance processes. We call on the London Development Agency to provide a full explanation of the work it has done to ensure that its budget is based on accurate and up-to-date information, in the hope that public confidence can be restored in an organisation that ought to have a valuable role in supporting London's economic recovery.

In this report we consider the key financial pressures and risks faced by the GLA and functional bodies, and look at what the Mayor's financial and policy priorities might mean for each of them and the services they provide. We provide an analysis of the issues in order to bring further transparency to the process by which £13 billion of annual public expenditure is directed and allocated. We welcome the work that has been done to establish a greater degree of stability and clarity of direction following the change in administration, and we make recommendations that if implemented would provide transparency about what cuts and savings are going to be necessary over the coming years, and a greater clarity about what outcomes the remaining expenditure is intended to deliver.

I am grateful for the cooperation we have received from colleagues across the GLA group during the year.

A handwritten signature in black ink, appearing to read 'John Biggs', with a stylized flourish at the end.

**John Biggs AM**  
**Chairman, Budget and Performance Committee**

# Executive Summary

In early December, the Mayor will publish his draft budget proposals for the GLA group: the Greater London Authority (GLA), Metropolitan Police Authority (MPA), the London Fire and Emergency Planning Authority (LFEPA), Transport for London (TfL) and the London Development Agency (LDA). This report examines the financial challenges faced by these bodies in 2010/11, and in the following two years that will be covered by the budget process.

We found that the biggest challenges in 2010/11 are likely to be faced by Transport for London and the London Development Agency. Falling demand for travel ensuing from the recession is resulting in shortfalls in TfL's planned income. In its final 2009/10 budget TfL assumed continued growth in travel on the Underground but at a much lower rate than had previously been expected; in fact, figures for April to August 2009 show underground trips were 1.9 per cent less than the equivalent period in 2008. As we warned back in July<sup>1</sup>, difficult decisions about services and fare levels would be needed as a result of the fall in income this will create. The Mayor has announced huge savings in TfL's budget to 2017 to help meet these financial challenges; fare increases well above inflation; and proposed delays to improvements and reductions to services. We look to the proposed revised business plan to clarify for Londoners what the effect will be on them of TfL's response to these financial challenges.

The financial prospects for the LDA in 2010/11 are bleak. The recently identified shortfall in its Olympic land commitments of £159 million not only damaged the Agency's reputation but has significantly reduced its resources. Together with clawbacks from central government of previously allocated grants, this shortfall will result in the LDA's available resources being over 20 per cent less in 2010/11 than previously planned. This comes in a period when the LDA will be trying to establish credibility with Londoners as the lead agency on economic development and regeneration in the capital in a challenging economic environment.

The Mayor has already announced that he intends to freeze the council tax precept in 2010/11. This affects the GLA, MPA and LFEPA which receive significant funding from the council tax precept. The announcement is in line with the expenditure limits set by the Mayor's Budget Guidance in July and we conclude that each of these bodies should be able to meet the Mayoral priorities set for them within the funds they are likely to have. Some uncertainty remains about the other funding for these bodies; an

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<sup>1</sup> The impact of the Mayor's fares decision, a report by the Budget and Performance Committee, July 2009



announcement on the council tax level this early in the budget process is therefore not completely without risk.

It is for the years from 2011/12 onwards that the pressure on all these bodies will increase. Government cuts are expected whatever the result of a spring 2010 General Election but the level of uncertainty is huge. How the Mayor balances his desire to limit the financial burden on London council taxpayers with his priority to maintain frontline services, particularly in the police and fire services, will be a central part of the debate on his budget proposals from 2011/12 onwards.

It is generally accepted that we are entering a period of financial restraint in public services. The early years of the London mayoralty were accompanied by a period of economic growth and growth in public spending. The current Mayor is operating in a very different financial environment. He has a crucial role in ensuring the most effective use of available resources.

Equally importantly he needs to make the case for London to central government, a process he has started in his work with London Councils through the Congress for London. This should highlight the capital's role as one of the principal drivers of the UK economy as we move out of recession and the contribution it makes to government tax revenue relative to the money it receives back. Our main recommendation to the Mayor is that he makes it a key priority of the next twelve months to make this case and to build a consensus with London boroughs, the Assembly and others to support his negotiations with central government. His success in making the case for London and the government's response to it will determine the extent to which vital services in the run up to the 2012 Olympic and Paralympic Games can be maintained and whether the improvements London needs to retain this role in the UK economy are not lost.

# Introduction

Each autumn this Committee publishes a pre-budget report ahead of the Mayor's consultation with the Assembly about his proposals for the budgets and policy priorities of the GLA and the functional bodies.

The extent of the Mayor's influence over the budgets of each of these organisations varies. Nevertheless, the budget process remains a key policy lever for the Mayor in directing the priorities of organisations which had a combined gross revenue and capital budget of over £14 billion in 2009/10. This expenditure is funded from a combination of sources including UK taxpayers in the form of government grants; London council taxpayers through the Mayor's council tax precept; and, in the case of TfL, fares paid by those using the capital's transport network.

The aim of this report is to examine the implications of the Mayor's financial guidelines and policies for the budgets of the functional bodies. In doing so we seek to identify the risks and challenges faced by them and the options available to meet these challenges. And no less importantly we strive to enhance the transparency around what is by necessity, given the legal framework governing the relationship between the Mayor and these bodies, an extremely complex process.

The remainder of this introduction briefly seeks to put this year's budget process in context. This includes the economic context in terms of the state of government finances; the political context compared with last year's budget process which took place early in the transition period from one Mayor to another; and the other external factors which provide challenges and opportunities to London's government. We also briefly look beyond the formal budget process by including a section on the power and reach of the Mayor. This puts his powers in relation to the budget process in the context of the extension of his statutory powers since 2007.

Chapter 1 of the report examines in detail how each of the functional bodies is funded and the risks associated with this funding. In Chapter 2 we look at the Mayor's priorities and financial guidelines as set out in his budget guidance and revisit a theme of last year's report: how he demonstrates value for money particularly in the context of the stated aim to protect front-line services while reducing expenditure. The remainder of the report examines the Mayor's spending proposals and priorities for the GLA and each of the functional bodies.

In preparing our report we have drawn on the work of the Committee, its sub-Committee and other Assembly committees since last year's report. In particular we draw on the conclusions and recommendations, and the Mayor's responses to them, of our reports on the GLA group's expenditure on the environment and youth; and our report on the Mayor's fares decision. We have also questioned representatives of each of the functional bodies since June 2009 and heard from outside experts such as the Institute for Fiscal Studies.

### **The context for the 2010/11 budget process**

As the Mayor's July 2009 Budget Guidance points out, the longer-term fiscal outlook has changed fundamentally since last year's guidance was published. Similarly, while we noted the worsening economic situation in our pre-budget report in October 2008 the state of the economy and its effect on public finances has subsequently altered significantly.

Since last year's report the UK economy has gone into recession and although there are signs of recovery the British Chambers of Commerce warns, 'the UK medium-term economic outlook is grim. A recovery is now starting, but the outlook is uncertain and we are facing a period of austerity'.<sup>2</sup>

The recession affects London government in many ways. For example, passenger numbers are falling on public transport which reduces the income to TfL from fares; rising unemployment increases pressure on skills and jobs programmes delivered by the LDA; and the fall in the property market has reduced the income to the functional bodies from its capital receipts.

However, it is the effect of the banking crisis in 2008 and the subsequent recession on the state of central government finances that is likely to have the most consequences for London in the coming years. As the Mayor's budget guidance points out, the forthcoming budget process will take place against a background of a "significant deterioration in the public finances". The resulting "anticipated retrenchment in future government spending gives considerable uncertainty for planning for future years". It is this expected retrenchment which is the key issue discussed in Chapter 1 of this report which looks at the risks associated with the different sources of income to the GLA group.

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<sup>2</sup> British Chambers of Commerce, UK Economic Forecast – September 2009

As the economic context for the budget process has changed since last year, so has the political. At the time of the publication of our 2008 report, the Mayor was only four months into his administration and, as we noted in our report, the complex transition was still ongoing and there was a degree of uncertainty surrounding the budget process. This year the GLA has a new Strategic Plan setting out the Mayor's high-level strategic objectives and a relatively settled team of key advisers and senior managers across the GLA group. These developments are to be welcomed but also raise expectations that there will be clear evidence of how the Mayor's agenda is being translated into budgets and policy priorities within the functional bodies.

And finally, it is important to note that the three year planning period covered by this year's Budget Guidance covers the period of the 2012 Olympic and Paralympic Games and the 2012 Mayoral and Assembly elections. Scrutiny of the Games and particularly its budget is likely to intensify and the GLA and functional bodies each have key roles to play in delivering a safe and efficient event which meets the expectations of the country. Furthermore, the way in which the Mayor uses his revenue-raising powers will be an important element of the debate leading up to the 2012 elections.

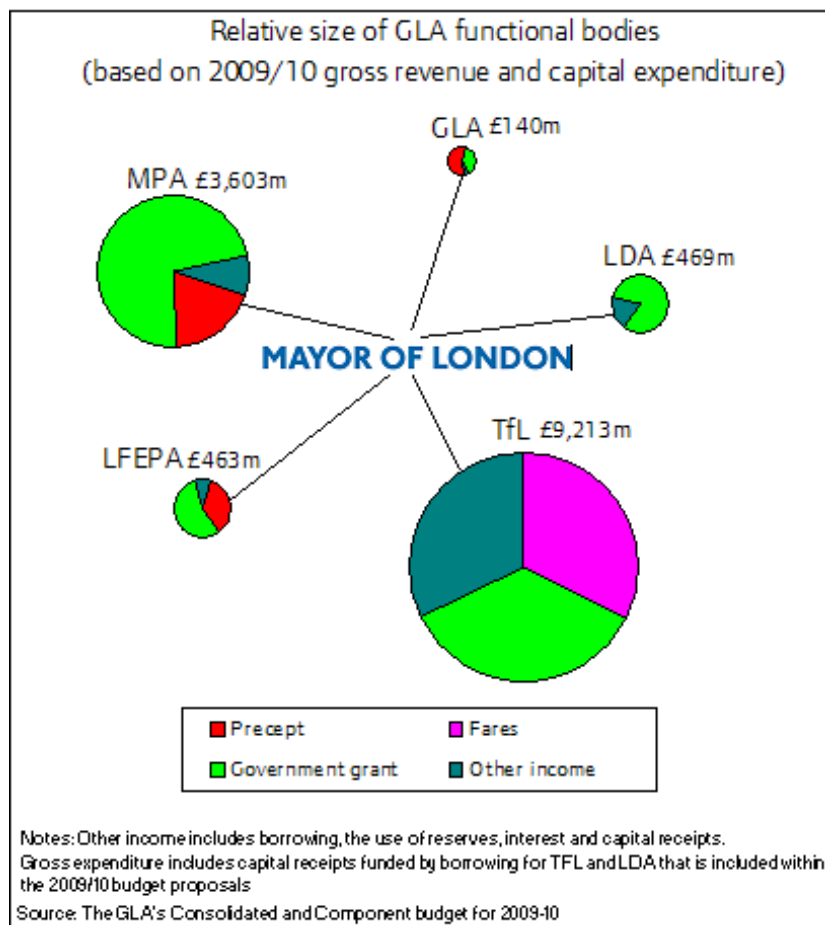
It is therefore reasonable to conclude that the Mayor is developing his budget proposals in an environment unprecedented since the creation of the GLA in terms of the challenges and opportunities he faces. The Assembly's role is to scrutinise and hold him to account on behalf of Londoners for the way he meets these challenges and opportunities; this report aims to contribute to this process.

### **The GLA group budget**

The relationship between the Mayor and the GLA and each of the functional bodies is complex and the scope of his ability to set and influence the budget of each varies. This section introduces the different budgets and the Mayor's relationship with each. It also briefly describes those budgets which fall outside the formal budget process but nevertheless provide the Mayor with significant sums of money to pursue his policy objectives.

The GLA Act 1999, as amended, and related legislation sets out the statutory relationship between the Mayor and the GLA, MPA, TfL, LFEPA and LDA. It is the budgets of these organisations that are the primary focus of this report. The relative size of these budgets is

illustrated in the graphic below; the circle for each functional body is proportionate to the size of its gross budget in 2009/10.



These circles represent the gross budgets of each organisation. As this shows, the gross budgets of TfL and the MPA dwarf those of the other bodies.

Although the Mayor sets the policy priorities for each, he only directly influences a proportion of each functional body's budget. The Mayor's Budget Guidance relates to what is known as the net revenue expenditure. This is the organisation's expenditure which is funded from general government grant and the council tax precept.<sup>3</sup> It is net of income from specific grants, which are ring-fenced for particular activities, and other income such as that from interest receipts.

<sup>3</sup> The sum actually set by the Mayor at the end of the budget process is the budget requirement. This is net revenue expenditure plus or minus any transfer to or from reserves. It is the budget requirement which determines the level of the council tax precept.

Nevertheless, net revenue expenditure remains a large proportion of gross expenditure of the MPA, LFEPA and GLA: in 2009/10 it accounted for 73 per cent of the MPA, 93 per cent of the LFEPA and 91 per cent of the GLA's total expenditure.

TfL and the LDA have generally received nominal or no income from council tax.<sup>4</sup> TfL's funding is predominantly from central government funding (35 per cent) and fare income (32 per cent). As we examined in more detail in our report in July, the Mayor has significant influence over the resources available to TfL outside the budget process through his decision on the level of fares. The Mayor also influences the policy priorities and spending of TfL through his position as Chair of the TfL Board.

The LDA receives nearly all its income from central government. Like his predecessor, the Mayor has not decided to use the council tax precept to raise income for the LDA. Through the budget process, the LDA must satisfy the Mayor with the allocation of its spending in order to deliver his priorities. The Mayor also has a power of direction over the LDA. For example, the current Mayor has directed the LDA board in relation to funding for academies and sport. He also appoints the LDA Board.

It should also be noted in relation to the LDA this year that as yet unknown proportion of its current budget, the Olympic directorate, is in the process of being transferred to a new body, the Olympic Park Legacy Company, control of which is shared with central government. Questions also remain over the extent to which assets such as the Olympic land, and the associated debt currently held within the LDA, will transfer. The Assembly is examining the implications of this transfer and is due to report early next year.<sup>5</sup>

While these funds remained within the LDA, it was directly responsible to the Mayor for this expenditure and reported to the Assembly through the work of this Committee and its sub-Committee which receives regular reports on expenditure against budgets. Under the new arrangements, responsibility for at least some of the funding which previously rested in the London Development Agency will transfer to the new company. It is important for transparency and

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<sup>4</sup> The council tax precept represents 0.01 per cent of TfL's gross budget.

<sup>5</sup> See Economic Development, Culture, Sport and Tourism Committee investigation, details of which are available on the Assembly's website: [www.london.gov.uk/assembly](http://www.london.gov.uk/assembly)

public accountability that the use of this public money continues to be scrutinised by the Assembly and that its effective removal from the budget consultation process does not dilute the extent to which decision-makers are held to account.

There are clearly limitations on the Mayor's ability to influence the overall income to the GLA group and the allocation of resources within it. A complex process of negotiation and consultation is required before the budgets of these bodies can be finalised. Where he does have clearer executive responsibilities is in the policies and priorities of the functional bodies which he sets out in his Budget Guidance and Strategic Plan. Therefore, as in previous years, we examine the spending proposals for all of the GLA organisations in this report.

The GLA's budget-setting process does not cover expenditure that takes place outside the GLA group but is within the Mayor's sphere of influence, such as those in relation to housing and skills. The following section briefly summarises the Mayor's new statutory powers and the associated influence of the Mayor on expenditure through bodies outside the GLA group, and considers how the Mayor is held to account in relation to those areas of expenditure.

### **The Mayor's new powers**

Changes to legislation in 2007 increased the powers of the Mayor significantly in the areas of housing and skills. He also has wide-ranging influence through the power of appointment to various London bodies and through the GLA's partnerships with other organisations. These are usefully set out for the first time in appendices 2 and 3 to the GLA strategic plan for 2009-12.

The Mayor now has influence or direction over spending on skills and employment through the London Skills and Employment Board and on housing through the London Board of the Homes and Communities Agency.

The Mayor's new powers in relation to adult skills provision in London were set out in the Further Education and Training Act 2007. The Mayor now chairs and appoints the London Skills and Employment Board. The Board has a duty to deliver a strategy for skills and employment in London and is responsible for the strategic direction of the adult skills budget of the London Learning and Skills Council. The Learning and Skills Council has a budget for adult skills in London of £635 million per year.

The Mayor also chairs the London Homes and Communities Agency Board which oversees and enables delivery of new housing in London through the London region of the Homes and Communities Agency. The London region has around £5 billion to invest in the period 2008-11 and the Board sets the strategic direction of this investment through the Mayor's Housing Strategy.

There are also smaller pots of funding which the Mayor is able to influence through chairing boards or using his power of appointment. For example, the London Waste and Recycling Board, chaired by the Mayor, has a budget of £84 million consisting of £60 million over three years of government funding and up to £24 million over four years of London Development Agency funds for improving commercial and industrial waste management

Other larger sums of money also come broadly within the Mayor's sphere of influence though the scope of these does not allow them to be used to pursue directly mayoral objectives. For example, the Mayor appoints the Chair of the London Pensions Fund Authority which is responsible for assets of £3.7 billion. These assets are invested for financial return rather than policy goals. The performance of the Authority in maximising returns is an important issue for the GLA as an employer contributing to the scheme.

Therefore, the power and influence of the Mayor over funding available for the government of London is complex and diffuse. To understand the budgetary and policy levers available to the Mayor to pursue his strategic objectives it is important not to concentrate exclusively on the functional bodies. In its work through the Planning and Housing, Economic Development, Culture, Sport and Tourism and Environment Committees the Assembly is examining the decisions being made and the priorities being pursued in relation to housing, waste, and adult skills and employment.

The Budget and Performance Committee intends to keep a watching brief on the Mayor's role in relation to spending by bodies outside the GLA group on issues of key concern to Londoners. This will help to ensure that all those appointed by the Mayor to deliver his priorities through the disbursement of public money are publicly held to account.



# 1. How the GLA and functional bodies are funded – managing the risks

## Summary

The GLA and functional bodies receive their income primarily from a combination of central government funding; income raised by the Mayor from the council tax; borrowing; and, in the case of TfL, fare income.

While TfL has a funding settlement with central government to 2017, the other functional bodies only have indicative grant allocations for 2010/11. There are high levels of uncertainty around the likely allocations for 2011/12 and beyond as central government finances come under pressure. We recommend that, to enhance public accountability and transparency, the functional bodies should publish the scale of their outstanding financial uncertainties and the associated risks.

It is very difficult for the Mayor and functional bodies to plan beyond 2010/11 because of this uncertainty. The Mayor's role in making the case for London over the next two years will be crucial in determining the extent to which London's services are affected by the expected retrenchment in government spending. We recommend that making the case for London should be a key priority for the Mayor over the next twelve months and that he should seek to build a consensus with London boroughs, the Assembly and others in London behind his submissions to central government.

Although TfL has a longer-term funding settlement, its main other income source, fare revenue, is particularly vulnerable and its financial situation remains uncertain. Similarly, the LDA's budget has been severely affected by the identification of its extra funding commitments within its Olympic land budget and it remains the functional body most at risk of future government spending cuts. These issues are explored in more detail in the individual chapters on these functional bodies.

Because of the nature of their work, the MPA and LFEPA have less scope than others to reduce operations in response to budget cuts and they rely on government grant for the majority of their income. The Committee hopes and expects that the importance of these bodies in providing emergency services to Londoners and the role they play in national resilience protect them from the most severe government cuts from 2011/12.

In the introduction to this report we set out where the funding for London government goes and how it is broken down between the various bodies for which the Mayor is responsible. This chapter of the Report looks at the various sources of income for each of the functional bodies and how Londoners contribute to this funding. In doing so we seek to enhance understanding of the funding of the functional bodies, the control and influence the Mayor has over this funding and the potential risks to elements of it in the coming years. The implications for each of the functional bodies are examined in more detail in the individual chapters to follow.

GLA group income comes from four sources: government grants; the council tax precept; fare income (TfL only); and other income including borrowing, capital receipts and interest. Londoners contribute to these main sources of income to varying degrees. The most direct contribution is through the council tax precept which accounted for £915 million or seven per cent of the total budget in 2009/10. Most Londoners also pay fares which are a significant contribution to TfL's budget (32 per cent) though this financial burden is shared with visitors to the capital. Londoners also contribute to central government through the tax system and contribute to London's 'tax export' which is key to the case for London: the capital contributes between £8 billion and £18 billion more in taxes to national government each year than it receives back in public spending.<sup>6</sup>

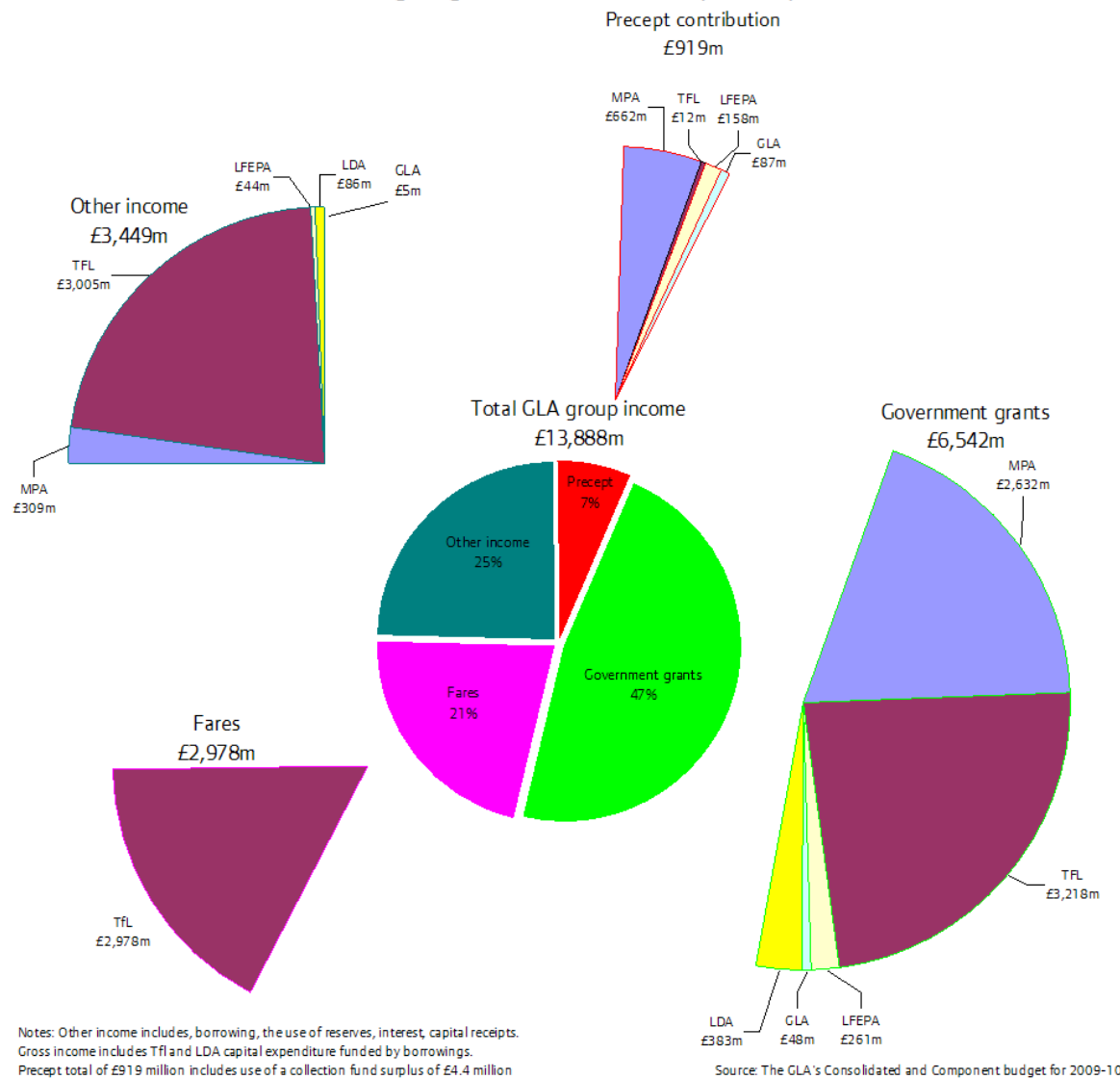
The graphic below illustrates how the four main sources of income come together to make up the total gross revenue and capital budget for the GLA and functional bodies. It is based on the figures on the 2009/10 budget which comprised a gross budget of £14 billion<sup>7</sup>.

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<sup>6</sup> Filling the coffers: London's tax export, GLA Economics, 2008

<sup>7</sup> Figure taken from the 2009/10 GLA group consolidated budget and capital spending plan as well as the TfL Budget for 2009-10, March 2009.

# Sources of income for the GLA group (2009/10 budget, gross revenue and capital expenditure)



### Government grants

As this graphic shows, the GLA group relies on central government grant for nearly half its income (47 per cent in 2009/10). The extent of any government retrenchment in its spending is therefore a significant risk to these budgets going forward.

Trying to plan for the level of this risk is difficult. The Institute for Fiscal Studies (IFS) suggests one plausible scenario would be 2.9 per cent a year real cuts over the 2011-12 to 2013-14 Spending Review period.<sup>8</sup> Depending on the extent to which other government departments are protected, the Department for Business Innovation and Skills might face cuts of up to 10.9 per cent over the review period.

However, even if the IFS's predictions are realised they do not in themselves give much of an indication of the likely grant settlement for individual London bodies. The Comprehensive Spending Review determines the top-level allocations for government departments. The allocation of the small part of these overall budgets to bodies such as the GLA group is subject to further consultation and, in the case of police and fire grants, formulas which restrict the variations in grant from year to year.

It should also be noted that not all commentators are as pessimistic as the IFS. Writing in the *Financial Times*, Samuel Brittan disputes the extent to which the expected levels of government borrowing constitute a financial crisis which will require radical cuts. He points to historical precedents which saw higher levels of debt reduced gradually 'without any heroic gestures'.<sup>9</sup>

Furthermore, it is inevitable that some parts of the GLA group will be more vulnerable to cuts than others. Their reliance on central government grant also varies. For example, the LDA draws the vast majority of its funding from central government and funds projects which might be particularly vulnerable in a period of financial austerity; its Board has asked for budget scenarios based on cuts in excess of five per cent from 2011/12. Needless to say cuts of this magnitude would have serious implications for the extent to which the LDA can deliver Mayoral priorities. By contrast, Kit Malthouse, the Deputy Chair of the MPA expressed confidence to the Committee that

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<sup>8</sup> See Budget and Performance Committee meeting 13 October 2009

<sup>9</sup> "A cool look at the current deficit hysteria", *Financial Times*, 2 October 2009

‘the balance of risk and need should mean that policing is always favoured over some of the more discretionary, and perhaps indulgent, spending that Government does’.

Transport for London is comparatively protected from the risk of future cuts in a Comprehensive Spending Review. It has a long-term funding settlement until 2017 as part of the 2007 Spending Review negotiations. Its uncertainties and risks lie with its fare income which has suffered as a result of the recession and the ongoing negotiations with its PPP partner Tube Lines over the scope of the next stage of the tube upgrades. Furthermore, the ongoing debate about the funding of Crossrail suggests transport in London is not completely immune from pressures on public sector finances.

While there is always a degree of uncertainty around future government grant, the three year period covered by the GLA budget process usually, at least, is able to give the functional bodies an indication of the broad range of income within which they might be required to operate in future years. Savings and efficiencies can be planned and growth items assessed for affordability. It is very difficult to see how the Mayor and functional bodies can make such assessments with any degree of confidence from 2011/12. Furthermore, it is unlikely that much greater certainty will be available when the Mayor publishes his budget guidance next year. This risks a degree of short-term planning which may have consequences for the ability of the Mayor to deliver his long-term priorities.

In his budget guidance, the Mayor has asked the functional bodies to publish a summary of outstanding financial uncertainties and issues. Greater transparency around the scale and extent of these risks would help the Mayor build a consensus around his submissions to central government in the coming months.

#### **Recommendation 1**

That, in his response to this Report, the Mayor sets out his analysis of the key risks to the future funding of the functional bodies, setting out as far as possible at what level of cuts front-line services would be put at risk.

The Mayor will have a crucial role to play in negotiating with central government over the next couple of years. As the driver of the UK economy and the host of the 2012 Games there are powerful reasons

why London's share of government funding should not be excessively cut. We welcome the commitment made by the Mayor, through the Congress of London, to make the case for London publicly and stress the importance of maintaining services in the run up to the 2012 Olympic and Paralympic Games.

### **Recommendation 2**

The Committee recommends that it should be the key priority of the Mayor in the next 12 months to ensure that, whichever party is in government from June 2010, London's services are protected. By highlighting the significant savings achieved and planned by the functional bodies in recent years the Mayor should highlight the risks to services of further cuts in the next Comprehensive Spending Review. The Mayor should work to build a broad public consensus, including London boroughs and the Assembly, to argue for the protection of London's services by ensuring a fair return for London's contribution to the exchequer. The Mayor should report back to the Committee on the steps he is taking to make the case for London by February 2010.

### **Council Tax precept and fare income**

The other main sources of income to the functional bodies are those which the Mayor has clear powers to influence and set the amount raised: the council tax precept and fares.

Income raised from fares was three times greater than that raised from the council tax precept in 2009/10 and it all goes to one body: TfL. The Mayor has demonstrated his willingness to ask fare payers using London's transport system to pay more to ensure improvements to the network can be made. In 2009, he raised fares by an average of one per cent above the retail price index thus implementing a real terms increase. In 2010, he proposes to increase average fares on the buses by over 14 per cent above inflation and on the tube by over five per cent above inflation. We examined the risks to TfL's income from the recession in our July 2009 report on the fares decision.<sup>10</sup> We revisit this issue in the chapter in this report on TfL and examine developments since. These developments have largely vindicated our key findings which were rebutted by TfL at the time.<sup>11</sup> The Committee

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<sup>10</sup> The impact of the Mayor's fares decision, a report by the Budget and Performance Committee, July 2009

<sup>11</sup> See, Mayor and TfL statement in response to London Assembly Budget and Performance Committee report on fares, 10 July 2009

welcomes the Mayor's more measured response to our report published earlier this month.

In contrast to his approach to fares, the Mayor has positioned himself firmly against asking Londoners for more money through the council tax. He froze the council tax precept in 2009/10 and he recently announced to the Conservative Party conference that he will freeze the precept again in 2010/11. In doing so he has effectively fixed one element of the budget that is not normally finalised until the functional bodies receive details of their grant settlements in late November and any other variables that affect income, such as the council tax base, have been confirmed.

The council tax precept raised £919 million in 2009/10. The vast majority of this (72 per cent in 2009/10) is allocated to the MPA. The band D council tax annual precept contribution has increased from £123 in 2000/01 to £310 in 2009/10. As can be seen from the table below, the MPA has been allocated the majority of annual precept increases and has used it to increase police numbers. The extra income had contributed to costs of over 10,000 extra police officers and the introduction of safer neighbourhood teams from 2004/05.<sup>12</sup> Rises were also implemented to improve LFEPA's capacity to respond to catastrophic acts, such as terrorism, from 2003/04.<sup>13</sup>

*Band D annual increase in council tax precept by functional body:<sup>14</sup>*

£m	03/04	04/05	05/06	06/07	07/08	08/09	09/10	09/10
	Total	Annual increase						Total
MPA	444	78	39	47	42	16	-3	662
LFEPA	111	9	6	6	5	11	10	158
TfL	58	-32	-6	-8	0	0	0	12
LDA	0	0	0	0	0	0	0	0
GLA	20	0	3	4	2	1	-2	28
Olympics	0	0	0	58	0	1	0	59
Collection fund	-6	3	1	-1	1	-3	1	-4
<b>Total</b>	<b>626</b>	<b>58</b>	<b>44</b>	<b>105</b>	<b>51</b>	<b>26</b>	<b>7</b>	<b>915</b>

<sup>12</sup> Police officers increased from 25,430 in March 2001 (Mayor's council tax leaflet 2004-05) to 35,804 in June 2009 (Police officer, staff and PCSO numbers, MPA website)

<sup>13</sup> The Mayor's annual council tax leaflets

<sup>14</sup> Figures taken from the Mayor's council tax leaflet for 2001/02 to 2008/09 and from the Mayor's consolidated budget 2009/10 (Changes in the precept collection fund have been excluded from the table).

Relative to the total GLA group gross budget, the money collected by the GLA council tax precept is small. However, it does provide a significant proportion of the gross income of three of the functional bodies: 18 per cent of the MPA's; 34 per cent of LFEPA's and 62 per cent of the GLA's. Also, small increases in income to functional bodies can enable the delivery of mayoral commitments which are additional to any national framework, for example, the expansion of neighbourhood policing under the previous Mayor which was largely funded by the council tax precept.

In our chapters on the GLA, MPA and LFEPA we examine the implications of the council tax freeze for 2010/11 and beyond. Our main conclusion is that, as we have indicative grant allocations for 2010/11, the risks of such an early announcement of the council tax freeze are relatively small. That said, adverse changes in the council tax base (the number of households which pay it) or the final grant settlement will create difficulties in ensuring that the budgets balance. Transfers from reserves may, in these circumstances, be dictated by the need to maintain the freeze in the precept rather than based on a coherent reserves policy. Alternatively, last minute savings may have to be found.

By contrast, given the uncertainty surrounding government grants for 2011/12 we consider the risks next year to be much greater. The Mayor needs to keep all options open for the council tax precept for 2011/12 and future years. Difficult decisions may need to be made about the services which can be provided for the money available and the council tax precept remains a key revenue raising power. The decision on how this power is used from 2011/12, as always, needs to be one which takes into account the balance between the services which can and should be provided to Londoners, particularly by the police, and the understandable desire to reduce the burden on council tax payers. A commitment this time next year on the council tax precept for 2011/12 in advance of agreed government grant allocations would make it difficult for the Mayor to argue that he has this balance in mind.



### Other income

As can be seen from the graphic earlier, other income represents a quarter of total income to the GLA group. However, the vast majority of this other income (87 per cent) goes to TfL and is largely accounted for by borrowing. The implications of this are examined in the chapter on TfL.

The main source of other income for the remaining functional bodies is in the form of interest receipt and income from sales of property. Sales have been affected by the decline in the property market. The MPA and LFEPA are rephasing their capital programmes to reflect the fact that expected income from property sales is less than expected as a result of this decline.

Other minor sources of income are affected by the economic situation. For example, TfL receives income from advertising which is vulnerable to a recession. Similarly, the GLA has seen a drop in its sponsorship income which it seeks to attract to help fund events.

### Conclusion

In last year's report we noted of the 2009/10 budget that 'within the context of tight financial planning guidelines and other significant cost pressures, there will be very limited scope for additional expenditure to fund new initiatives or programmes to deliver the Mayor's priorities; they will have to be accommodated within existing resources either through savings or through reductions and expenditure in other areas'. This remains the case in 2010/11; from 2011/12 it is likely that the previous two years will come to be seen to have been a period of relative luxury.

The following chapter looks at the Mayor's financial guidelines for 2010/11 in more detail and his budget priorities as set out in his budget guidance.

## 2. The Mayor's financial guidelines and priorities

### Summary

The Mayor's financial guidelines represent a slight cash increase in planned net expenditure for the MPA and LFEPA in 2010/11 of 1.2 and 1.3 per cent respectively compared with 2009/10.

The rate of inflation in 2010/11, and especially pay inflation, will determine the extent to which these cash increases will mean real terms cuts or increases for the MPA and LFEPA.

The Mayor and Assembly components of the GLA are also being cut in cash terms by about one per cent once transfers of money to and from the Authority for the 2012 Olympic and Paralympic Games and the Museum of London are taken into account.

The Mayor's priorities are set out in his Budget Guidance and the GLA Strategic Plan. The Committee expects to see the functional bodies link their planned expenditure to these priorities.

The strategic plan, budget and business plans of the functional bodies should establish clear links between expenditure, Mayoral priorities and outcomes. This will help demonstrate the extent to which value for money is being achieved or whether simply less money is being spent.

### The Mayor's financial planning guidelines

The financial planning guidelines published as part of the Mayor's budget guidance in July 2009 relate to net revenue expenditure. The GLA, MPA and LFEPA are the bodies which receive significant amounts of money from the council tax precept relative to their total budgets.

The table below shows the change in net revenue expenditure between 2009/10 and 2010/11 proposed for these organisations. Total net revenue expenditure of these organisations is planned to increase slightly by 1.2 per cent between these two years.

*The Mayor's budget guidance July 2009: change in net revenue expenditure for MPA, LFEPA and the GLA*

£m	2009/10	% change	2010/11
MPA	2,640.3	1.2%	2,673.3
LFEPA	431.8	1.3%	437.3
GLA: Mayor	118.4	0.4%	118.9
GLA: Assembly	8.7	-1.1%	8.6
Total	3,199.2	1.2%	3,238.1

This change in net revenue expenditure between 2009/10 and 2010/11 is substantially the same as that planned in the Mayor's Consolidated Budget for 2009/10 published in February.<sup>15</sup>

The small amount of growth relates to the MPA and LFEPA which increase by 1.2 per cent and 1.3 per cent respectively.<sup>16</sup> These cash increases do not take into account inflation. Inflation as measured by the Consumer Price Index (CPI) in July 2008 was 1.6 per cent and by the Retail Price Index (RPI) -1.4 per cent. However, the precise size of any real terms changes will depend on the rate of inflation in a year's time which is uncertain.

The Bank of England is charged with managing monetary policy to achieve a target rate of inflation of two per cent as measured by the Consumer Price Index. The Bank expects the current low inflation through the recession to reverse and the general level of inflation through 2010/11 and 2011/12 is expected to return to the two per cent target rate.<sup>17</sup> In this scenario the small cash increases in net revenue expenditure for MPA and LFEPA would constitute real terms cuts. The extent of these cuts will also depend on the change in prices across a range of expenditure by the two bodies.

Most significant of this expenditure is salaries and staff costs which constitute 78 and 67 per cent of the net revenue expenditure of the MPA and LFEPA respectively. The MPA will be within a three-year pay settlement in 2010/11 which provides for increases for uniformed staff of 2.6 per cent from September 2009 and 2.55 per cent from

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<sup>15</sup> The minor changes to the Mayor and Assembly components of the GLA's Net Revenue Expenditure are explained in chapter 2

<sup>16</sup> Both the Mayor and Assembly components of the GLA's NRE fall slightly in cash terms between 2009/10 and 2010/11 once the Olympic Funding Agreement and grant for the Museum of London are taken out of the Mayor's component.

<sup>17</sup> Bank of England Inflation Report, August 2009, Chart 5.6, page 40

September 2010. At around 60 per cent<sup>18</sup> of its net revenue, it is likely that these additional costs will absorb the cash increase in 2010/11.

The MPA can, at least, budget accurately for increases in staff costs. There is a degree of risk for LFEPA as the pay settlement for 2010/11 in the fire service has not yet been agreed. Clearly, a higher than expected pay settlement will result in LFEPA having to identify additional savings. The potential impact on LFEPA is discussed in the chapter on the Mayor's financial guidelines for the Authority. The effect of inflation on the functional bodies is an issue the Committee is likely to explore during the consultation on the budget proposals.

#### *Financial guidelines for 2011/12 and 2012/13*

In his financial guidelines, the Mayor asks the GLA, MPA and LFEPA to plan for two scenarios from 2011/12: a freeze in government grants and a cut of 1.5 per cent. The upper and lower limits for net revenue expenditure based on these scenarios are shown in the table below.

Net revenue expenditure based on annual reduction of 1.5 per cent in government grants from 2011/12:

£m	2009/10	% change	2010/11	% change	2011/12	% change	2012/13
MPA	2,640.3	1.2%	2,673.3	-1.0%	2,645.9	-1.0%	2,619.4
LFEPA	431.8	1.3%	437.3	0.0%	437.5	-0.6%	434.7
GLA: Mayor	118.4	0.4%	118.9	0.3%	119.3	-0.1%	119.2
GLA: Assembly	8.7	-1.1%	8.6	0.0%	8.6	-1.2%	8.5
Total	3,199.2	1.2%	3,238.1	-0.8%	3,211.3	-0.9%	3,181.8

Net revenue expenditure based on a freeze in government grants from 2011/12:

£m	2009/10	% change	2010/11	% change	2011/12	% change	2012/13
MPA	2,640.3	1.2%	2,673.3	0.1%	2,676.9	0.1%	2,679.8
LFEPA	431.8	1.3%	437.3	0.9%	441.4	0.2%	442.4
GLA: Mayor	118.4	0.4%	118.9	0.9%	120.0	0.0%	120.0
GLA: Assembly	8.7	-1.1%	8.6	1.2%	8.7	0.0%	8.7
Total	3,199.2	1.2%	3,238.1	0.3%	3,247.0	0.1%	3,250.9

As this table shows, the scenario of a 1.5 per cent reduction in government grant from 2011/12 would lead to a total 0.9 per cent

<sup>18</sup> The other 18 per cent of its staff costs are for civilian staff who come under a separate pay agreement.

reduction in net revenue expenditure in 2012/13. The Mayor can raise net revenue expenditure through his use of the council tax precept. The detailed implications of these scenarios on individual functional bodies are examined in the following chapters.

We discussed in Chapter 1 the view that government grants are likely to be cut in 2011/12 as the government seeks to reduce the size of its debt. As we conclude in that section of the report, it is very difficult to predict with any accuracy how the deterioration in public finances will affect the grant settlement for the GLA in future years. The Committee has no reason therefore to conclude that the scenarios assumed in the budget guidance are unreasonable. Nevertheless, the level of uncertainty is great and we would expect the GLA, MPA and LFEPA to be planning at some level for additional scenarios.

As discussed in the introduction to this report, the Mayor, in line with his predecessor, is not planning to raise significant sums for TfL and the LDA through the council tax. Some detail of the anticipated high level budgets for these organisations is set out in the Mayor's consolidated GLA budget 2009/10. These indicate that small increases in both organisations' expenditure were expected between 2009/10 and 2010/11.

However, the plans for both organisations' 2010/11 budgets, as set out in last year's budget document published in February, are now likely to have changed as a result of developments in the meantime. As we discuss in more detail in the following chapters, TfL and the LDA are under considerable financial pressure. TfL's fare income is reducing because of falling demand for travel in the recession and there are risks that the costs of the next stage of the Tube upgrades will be higher than anticipated. Similarly, the LDA has huge financial challenges caused by the recent identification of the funding shortfall in the Olympic land budget and the withdrawal of some government grants.

### **The Mayor's priorities**

As well as setting the financial guidelines for the three-year period covered by the budget process, the Mayor's guidance also sets out his key policy themes and priorities. In last year's Pre-Budget Report we noted the lack of such policy priorities as the new administration was being established. The GLA corporate plan was still being updated at that stage last year and the budget guidelines gave little indication of the Mayor's overarching themes.

This year the GLA has published a strategic plan and the budget guidance includes cross-cutting policy themes and individual priorities for each functional body. The themes in the budget guidance are: promoting safety and personal wellbeing; improving housing and the living environment; building economy and quality for all; and cleaner, greener, more efficient and accessible transport and technology. The guidance gives further information on these themes.

The Committee welcomes the publication of the themes and policy priorities in the budget guidance. We note these differ slightly from the strategic plan published earlier this year but expect any such anomalies to be ironed out as the budget and strategic planning processes are aligned.

To show how he is delivering on his policy priorities, the Mayor needs to ensure that the functional bodies can demonstrate how their funding is linked to Mayoral themes and policies. The Committee does not expect to see this level of detail in the budget proposals but it does anticipate that the business plans of the individual functional bodies will clearly link their planned expenditure to Mayoral priorities in the strategic plan and set out the outcomes to be achieved from the expenditure. This will enable Londoners to see how much money is being spent in pursuit of which policy priorities and what is being achieved.

### **Recommendation 3**

The Mayor must ensure that the functional bodies demonstrate in their business plans how their expenditure relates to his policy themes and priorities as set out in the strategic plan. Expenditure should be linked to these priorities, and related outputs and targets, so that the expected outcomes from this expenditure are clear.

Establishing a link between budgets and performance in this way would help assess the extent to which the Mayor is meeting his objective to provide greater value for money. As we pointed out last year, and the Mayor concurred in his response to our report, value for money is not simply spending less. It is about achieving more for less or the same or even achieving disproportionately more for higher expenditure.

The link between budgets and Mayoral priorities which we expect to see is perhaps best illustrated by reference to our recent report on expenditure on the environment across the GLA group. This report examined how the Mayor was leading the GLA group on the delivery of his environmental priorities. The Committee's main source of information was the 'GLA group environment spend 2009/10' document which was produced at the request of the Budget and Performance Committee after the Mayor attended a Committee meeting on 16 December 2008. The document proved to be a valuable tool to begin to monitor how the GLA's spend on the environment was linked to the Mayor's priorities and objectives. A central conclusion from the investigation was that this document should be produced on an annual basis.

The Mayor would not commit to producing the report annually. He argued that he did not want to treat environmental programmes in isolation from all other programmes because he wanted to see all programmes contribute to environmental improvements and not just those labelled as 'environmental'.

The Committee shares his desire to see all programmes contribute to environmental objectives. However, the report would bring clarity to exactly how the Mayor was defining environment spend and give meaning to statements such as 'the Mayor has committed to spending at least £100 million, an unprecedented amount, on environment and climate change programmes over his four years in office'<sup>19</sup>, which was included in the Mayor's environment direction of travel document in July 2009. Linking spending to Mayoral environmental themes and priorities, and related targets and outputs, as described above would go some way to providing such clarity.

We further explore the theme of how to demonstrate that value for money has been achieved in the following chapters on the MPA and LFEPA. In both cases, we seek a definition of front line services to enable us to clarify the extent to which savings can be found without affecting these services as promised.

The remaining chapters of this report examine the Mayor's spending proposals and priorities for each of the GLA and functional bodies.

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<sup>19</sup> Leading to a greener London, An environment programme for the capital, July 2009.

### 3. The Mayor's spending proposals and priorities for the Metropolitan Police Authority

#### Summary

The MPA needs to identify between £210 million and £260 million of net savings over the next three years to comply with the Mayor's planning guidelines. The MPA has an excellent track record of delivering its required savings. That said, we believe the MPA could do more to increase the transparency of the application and effect of these savings

The Deputy Commissioner of the MPS has pledged that savings will not affect front line services in 2010/11. We welcome the pledge, but without a clear statement of what the savings are and what effect they will have, concern will increase that front line services are being affected. The lack of a clear definition of time spent on front line services a year after it was promised to the Committee makes it difficult for the Deputy Chair of the MPA to move the debate away from police numbers. As pressure to find savings increases from 2011/12 attention will inevitably continue to focus on the number of uniformed officers and whether the MPA can sustain the numbers in its policing plan.

The Mayor has made it clear that policing is a priority. In good economic times it has been possible for him to increase police numbers and resources to fight knife and gun crime. The real test will come as times get tougher and MPA required budget balancing savings increase. From 2011/12 the Mayor may be faced with the very real choice of increasing the precept or seeing a reduction in front line policing.

#### The Role of the Metropolitan Police Authority and the Mayor in setting the Metropolitan Police Service budget

The MPA is the GLA 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 has a gross annual expenditure of approximately £3.6 billion.

The Mayor sets the net revenue expenditure for the MPA.<sup>20</sup> He has no control over the level of government grant but can increase the precept contribution to the police.

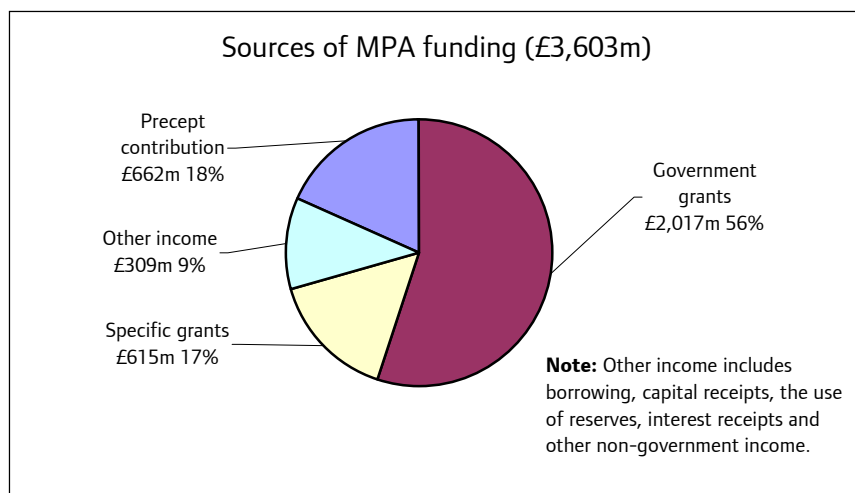
The remainder of the MPA gross budget is funded by specific grants from the government, other income and the use of reserves. The

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<sup>20</sup> See explanation of net revenue expenditure on page 11



graph below shows the sources of MPA income and their relative size based on the 2009/10 budget<sup>21</sup>.



The MPS's functions are staff intensive and the majority of its expenditure is therefore on its people and their associated costs. Approximately 60 per cent of revenue expenditure is spent on salaries, overtime and associated costs for 35,000 police officers, 5,000 police community support officers and 200 traffic wardens; 18 per cent on pay for 15,000 civilian staff; and the remaining 22 per cent on premises, transport, supplies and capital financing costs.

### The impact of savings required in 2010/11

As at 16 September 2009, the MPA still needed to identify £46 million of net savings to make the 2010/11 budget balance. The MPA and MPS are confident that the savings can be found without reducing officer numbers or significantly affecting front line services.<sup>22</sup> In past years, the MPA has started the budget setting process with unidentified savings but has successfully found them before the beginning of the financial year.

In 2009/10, the MPS successfully identified £92 million of savings and efficiencies.<sup>23</sup> The GLA Consolidated 2009/10 budget includes a breakdown of where these savings came from but does not provide any analysis of how these savings affect services.

<sup>21</sup> Policing London Business Plan 2009-12, page 31

<sup>22</sup> The Deputy Commissioner of the MPS and the Vice Chair of the MPA speaking at the Budget and Performance Committee meeting on 16 September 2009

<sup>23</sup> GLA Group consolidated budget 2009-10

The savings and efficiency table shows that in 2009/10 savings were found by making small efficiency gains in many areas of the budget. Whilst the Committee welcomes the MPS becoming more efficient and building significant levels of savings through lots of small budget reductions, this will become increasingly difficult over time as the easy to identify savings will have already been taken. There will become a point where the MPS will need to identify what the Deputy Chair of the MPA described as 'big ticket savings'<sup>24</sup> and at this point it will become even more important that there is a measure in place for monitoring the effect these savings will have on front line service capacity.

The Committee was told in November 2008 that the MPA and MPS were developing a new measure of front line capacity and that it would be in place for 2009/10.<sup>25</sup> However, the measure is still not available and is only at an early stage of development. Kit Malthouse, Deputy Chair of the MPA, told the Committee in a meeting in September 2009 that "We have had some initial discussions around finding another indicator. I am hopeful that in the next three or four months we might come up with something."<sup>26</sup>

It is important that the measure is established before 2011/12 for which budget balancing savings of over £200 million still need to be identified.<sup>27</sup> With employee costs accounting for approximately 78 per cent of net expenditure it will be difficult to find the required savings without reducing employee numbers.

The Mayor is committed through the London Policing Plan to maintaining the number of uniformed officers until 2012. There were 32,930 police officers and recruits in 2008/09.<sup>28</sup> This number is planned to increase by around 300 in 2009/10 before returning to the same level in 2012.

Making cuts to civilian support staff budgets may have a greater effect on front line services than is first apparent. The MPS has a staff

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<sup>24</sup> Deputy Mayor for Policing speaking at the Budget and Performance Committee meeting, 22 July 2008

<sup>25</sup> Chair of the MPA Finance and Resources Committee speaking at the Budget Monitoring Sub-Committee, 5 November 2008

<sup>26</sup> Deputy Mayor for Policing speaking at the Budget and Performance Committee meeting, 16 September 2009

<sup>27</sup> MPS and MPA, Interim budget submission 2010-13, volume 0.13.2, September 2009.

<sup>28</sup> Metropolitan Policing Plan 2009-12.

to officer ratio of approximately 1 to 2.5 compared to a ratio of 1 to 1.8 in most similar forces in the UK.<sup>29</sup> With a smaller proportion of support staff than other forces, there is less room to make savings here before front line services are affected because officers have to carry out work previously done by support staff. By contrast, reducing officer numbers may be possible whilst still maintaining front line services if the use of officer time can be made more efficient.

In the context of this discussion, it should also be noted that a small but nevertheless important number of officers are funded from external sources, such as London boroughs and Transport for London. It is difficult for observers to gain a clear understanding of how policing is being funded in London and what the effect of reduced contributions from bodies external to the MPA will have on London's policing and safety levels. For example, the MPA does not publish details of the funding it receives from each local authority and TfL and what officers it commits to provide in return for this funding.

It is important that there is a good understanding of how all policing and neighbourhood safety in London is funded so that the effect of any external reductions in funding of safer neighbourhood policing is understood.

#### **Recommendation 4**

The Mayor should ask the MPA to publish by the start of the 2010/11 financial year details of its funding sources including those from outside bodies, such as London boroughs, and how these contribute to policing levels.

What is clear is that without a measure of front line services capacity or details of the cuts and the effect they will have, it will be difficult to understand how likely cuts to employee budgets might affect the police service that Londoners experience. The Committee does not wish to create unnecessary bureaucracy or targets. The measure of front line service capacity is important because it will provide an essential tool to help the MPA and MPS find the savings that have the least affect on front line services as well as increasing transparency over the effect of savings on frontline service capacity.

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<sup>29</sup> Most similar forces as defined by HMIC are: Greater Manchester, Merseyside, West Midlands and West Yorkshire. Staff numbers are taken from most up-to-date numbers on individual police force websites at 1 October 2009. MPA figures are based on numbers at 30 June 2009 as per the MPA website.

### Recommendation 5

The Committee recommends that the MPA produces a measure of frontline service capacity by April 2010 so that the service impact of budget savings can be understood.

### The effect of likely government grant cuts from 2011/12

The Mayor has asked the MPA to prepare budgets for 2011/12 and 2012/13 based on the two scenarios of a government grant freeze and a 1.5 per cent annual reduction in the government grants. The table below compares the net revenue expenditure position given in the Mayor's published 2009/10 budget to the net revenue expenditure position for 2010/11 to 2012/13 based on the two scenarios given in the Mayor's budget guidance for 2010/11.

£m	2010/11	2011/12	2012/13
<b>Mayor's published budget 2009/10</b>			
Government grant	2,028	2,078	
Income from precept	645	629	
Net revenue expenditure	2,673	2,707	
<b>Mayor's guidance 2010/11</b>			
<u>Scenario 1 – grant freeze</u>			
Government grant	2,028	2,028	2,028
Income from precept	645	649	652
Net revenue expenditure	2,673	2,677	2,680
<i>Change from 2009/10 plan</i>	-	-30	
<i>Year-on-year change</i>	33	4	3
<u>Scenario 2 – 1.5% grant reduction</u>			
Government grant	2,028	1,997	1,967
Income from precept	645	649	652
Net revenue expenditure	2,673	2,646	2,619
<i>Change from 2009/10 plan</i>	-	-61	
<i>Year-on-year change</i>	33	-27	-27

The MPA is preparing its draft budget based on the 1.5 per cent grant reduction scenario. This will require the MPA to identify £27 million of additional reductions or savings in 2011/12 and a further £27 million in 2012/13. At one per cent of the MPA's net revenue expenditure, these savings may not seem hugely significant. However, when they are added to the savings that are already required just to make budgets balance, the size of the challenge the MPA faces to find savings becomes apparent.

The table below shows the amount of savings required to balance the budgets in 2011/12 and 2012/13. It shows how savings requirements have increased since the Mayor's 2009/10 budget and the effect a grant freeze and 1.5 per cent reduction in grants from 2011/12 will have on net savings requirements.

£M	2011/12	2012/13
Budget gap based on 2009/10 published budget	125	N/A
Additional savings required since 2009/10 published budget	24	N/A
<b>Revised budget gap prior to Mayor's budget guidance<sup>30</sup></b>	<b>149</b>	<b>139</b>
Extra savings required due to government grant freeze from 2011/12	30	61
<b>Total savings to be identified assuming grant freeze from 2011/12</b>	<b>179</b>	<b>200</b>
Extra savings if government grant reduces by 1.5% from 2011/12	31	60
<b>Total savings still to be identified if grants reduce by 1.5% from 2011/12</b>	<b>210</b>	<b>260</b>

£210 million represents eight per cent of the MPA's net revenue expenditure for 2011/12. This is equivalent to the pay of approximately 3,600 of 33,000 police officers included in the 2009-12 business plan budget for 2011/12. Clearly the savings will not all come from police officer pay, and the MPA has said it will be doing its best to maintain front line services, but this does illustrate the scale of savings required to make budgets balance from 2011/12.

The Deputy Commissioner of the MPS told the Committee that the MPS would have significant difficulty in sustaining current levels of activity given the savings required in 2011/12 and 2012/13. He suggested that some longer-term savings projects would need to be brought forward and landed swiftly to avoid front line services cuts.<sup>31</sup> MPA and MPS aims to bring forward savings projects and the Committee will be examining the progress that has been made by November 2009 in identifying them.

<sup>30</sup> Mayor's Budget Guidance 2010/11, MPA Finance and Resources Committee report, 30 July 2009

<sup>31</sup> Deputy Commissioner of the MPS speaking at the Budget and Performance Committee meeting on 16 September 2009

Given the risk to front line services from 2011/12 if savings projects cannot be brought forward, the Committee believes it is important for public accountability and transparency that the MPA is open about the risks related to its savings programme.

#### **Recommendation 6**

We recommend that the Mayor reports MPA progress on bringing forward savings projects in his response to this report. The response should include the section of the MPA's draft budget submission on outstanding issues and uncertainties. This should include a risk assessment of savings projects not being successfully advanced and savings having to be made by reducing front line service capacity in 2011/12 and 2012/13.

The MPA's estimates for savings are based on the assumption that the Mayor will not increase the precept. Depending on the scale of government grant reductions and the MPA's success in advancing savings projects, the Mayor may need to consider increasing the precept contribution to the police from 2011/12 to avoid reductions in officer numbers and front line capacity.

Since his election campaign in 2008 the Mayor has made it clear that policing has been a priority for him. Two examples are his introduction of transport hub police to fulfil his promise of an increased police presence on buses and his call for more hand held scanners and knife arches to support Operation Blunt 2 and fight knife crime. These projects require additional resources, some from other bodies such as TfL, and officer time. If the Mayor intends these operations to continue to be a priority, then increasing the precept contribution to the police from 2011/12 needs to remain an option. As Kit Malthouse, Deputy Chair of the MPA explained, 'it is always open to the Mayor to supplement the money that the police gets through the precept, he says policing is important to him and we will be having discussions with him about what his precept strategy is'.<sup>32</sup> We welcome the fact that the Mayor is keeping options open and will use the precept if necessary to deliver his policing priorities.

#### **The deferral of capital spending programmes**

The MPA continues to underachieve on its Capital Spending Plan and as a result resources and facilities intended to help the police carry out

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<sup>32</sup> Deputy Chair of the MPA speaking at the Budget and Performance Committee meeting, 16 September 2009.

its work are not available as planned. In September 2008 the capital budget for the 2008/09 was lowered by £26 million to account for reduced income from capital receipts caused by the downturn in the property market. Despite this revision the year-end outturn report shows that a further £46 million of underspend occurred. One of the areas hardest hit by the deferrals and underspends is the property programme. £15 million of spend on patrol bases, custody suites and office buildings were deferred when the budget was revised in September 2008 and a further £10 million of underspends occurred on this programme between then and March 2009.

The capital outturn report explains that some of the capital project rephased to 2009/10 will be paid for from the use of capital reserves not used in 2008/09. This suggests that funding was available for some of these projects in 2008/09 and deferrals did not only occur due to a shortage of available funding caused by reduced capital receipts.

#### **Recommendation 7**

The MPA should prioritise ensuring that capital budgets are fully used during the year and demonstrate how this is being done in its quarterly monitoring reports. Reports should clearly differentiate between capital underspend that has occurred due to a decrease in available funding, and deferrals that have occurred due to operational delays.

At its meeting in January 2009, the Committee raised with the MPA the scope for increasing borrowing to safeguard or even bring forward capital programmes.<sup>33</sup> In June 2009, the MPA agreed to take out unsupported borrowing to safeguard its capital programme against delays in capital receipts.

The borrowing will be used as a contingency to cover any shortfall in capital receipts over the next three years. So long as it is prudent and affordable, the extra borrowing will allow the MPA to delay the disposal of property and wait for the property market to improve. This approach should lead to less capital programmes needing to be rephased and capital spending plans being more closely adhered to.

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<sup>33</sup> Deputy Chair of the Budget and Performance Committee speaking at a Committee meeting on 19 January 2009

The MPA recognises that 'a far higher level of capital investment than that presently possible is desirable'<sup>34</sup> and is considering the potential for further borrowing not only to safeguard the programme but to allow capital programmes to be advanced. The Committee welcomes this approach particularly where capital programmes will increase efficiency and help the MPA meet its challenging revenue savings targets over the next three years.

#### **Recommendation 8**

The Committee recommends that the MPA continues to explore the possibility of increasing borrowing to bring forward capital programmes and makes a decision before the end of the 2010/11 budget setting process. Particular attention should be placed on the possibility of bringing forward capital programmes that will provide revenue savings over the next three years.

#### **The use of general reserves**

The MPA's general and emergency reserves have increased in the last few years and in March 2009 were equivalent to 2.7 per cent of net revenue expenditure.<sup>35</sup> MPA policy is to maintain a reserve of at least two per cent. The Committee understands that in time of economic uncertainty there is value in being prudent, but the associated opportunity costs of holding a larger general reserve must be considered, particularly when the MPA is taking out further borrowing to act as a contingency against shortfalls in capital receipts.

#### **Recommendation 9**

In response to this report, the Committee asks the MPA to provide details of the rationale for increasing its general reserve. It should explain what consideration has been given to using the general reserve to advance capital programmes or to provide a contingency against possible reduced capital receipts.

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<sup>34</sup> Detailed Capital Outturn Review 2008/09, MPA Finance and Resources Committee report, 30 July 2009

<sup>35</sup> MPA, Finance and Resources Committee paper 'Icelandic Bank impairment adjustment post approval of statement of accounts 2008/09 in June 2009', 17 September 2009



## 4. The Mayor's spending proposals and priorities for the London Fire and Emergency Planning Authority

### Summary

LFEPA needs to identify between £16.6 million and £24.2 million of net savings over the next three years to comply with the Mayor's planning guidelines. Although these levels of saving are low in absolute terms when compared to other functional bodies they nevertheless require additional savings of between 1.1 and 3.2 per cent of net revenue expenditure each year.

These future required savings should be seen in the context of a service that has already undertaken an extensive and detailed review of non-operational staff over the past two years which has identified savings in these areas.

The salary agreements that have assisted the service in forecasting and controlling costs over the past years have run out and a new agreement needs to be negotiated. The outcome of these negotiations compared with the assumptions made by LFEPA in its budget planning will determine the savings challenge the Authority faces.

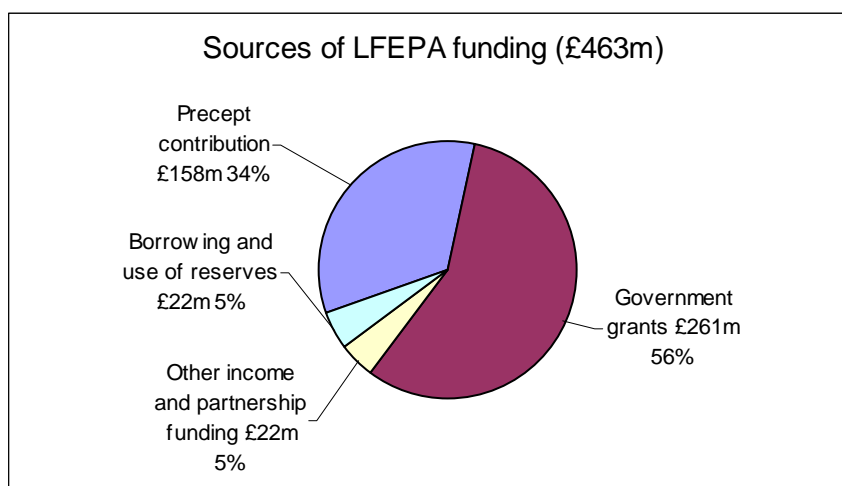
The continued lack of definition for front line services when the Mayor has retained as a priority for LFEPA maintaining them makes it difficult to assess the likely impact of proposed savings and reductions that will be required to maintain the budget balance in later years.

### The Role of the London Fire and Emergency Planning Authority and the Mayor in setting the LFEPA budget

The London Fire and Emergency Planning Authority (LFEPA) is the GLA functional body that provides governance to the London Fire Brigade (LFB). One of its key roles is to set and monitor the annual fire service budget, which has a gross annual budget of £463 million.

The Mayor's guidelines relate to net revenue expenditure for LFEPA. The gross annual budget is made up of government grant, income from external bodies and contribution from the Mayor's precept on council tax.

The graph shows the sources of LFEPA income and their relative size based on the 2009/10 budget.<sup>36</sup>



The Mayor's budget guidance for 2010/11 provides LFEPA with an increase in its share of precept and the interim budget submission for 2010/11 is set to achieve a balanced operational budget without calling on reserves. This small increase has come at the cost of a slight reduction in the MPA share of precept.<sup>37</sup>

LFEPA's operational budget has balanced in the past two years through underspends and through drawing from its reserves. In terms of efficiency savings, LFEPA has been working through organisational savings programmes in back office functions. We note the fact that of all functional bodies providing services directly to Londoners LFEPA is the most dependent on precept funding.

### **The impact of savings required in 2010/11**

LFEPA functions are staff intensive and staff costs principally relate to the core fire fighting and rescue function. The majority of its expenditure is on its people and associated costs with the 2009/10 direct operational and rescue staff costs being approximately 67 per cent of net revenue expenditure while total staff costs (including pensions) were over 83 per cent of net revenue expenditure.

In its interim budget submission on 17 September LFEPA had identified £3.86 million of savings and had a further £2.06 million to identify to meet the 2010/11 net revenue target. LFEPA

<sup>36</sup> Data from GLA Group Budget Proposals and Precept 2009/10, December 2008

<sup>37</sup> Confirmed by Sue Budden, Head of Finance, LFEPA, Budget and Performance Committee meeting, 16 September 2009

representatives told us they were confident that they would be able to meet the savings target without affecting front line services.<sup>38</sup>

The existing LFEPA salary agreements have run out and LFEPA is currently in negotiation for the next period agreements. With a significant portion of total expenditure being pay related the assumptions LFEPA has made concerning the outcome of the pay and wages negotiations will be critical in meeting the budget targets in the medium term.

The interim budget submission set out LFEPA's estimate of the inflationary costs on their expenditure in the medium term forecasts:<sup>39</sup>

	2010/11	2011/12	2012/13
Inflationary spend - % of NRE	0.8%	1.6%	2.3%

#### **LFEPA priorities and 'front line' services**

We noted in our Pre-Budget Report last year that the Mayoral priorities for LFEPA had seen the removal of fire prevention. On investigation with the Commissioner it became clear that, although removed from the stated Mayoral priorities, it was not removed as a priority area within the fire brigade and was still a key measure of performance for the Brigade. We welcome the re-introduction of this area within the Mayoral priorities this year.

The Mayoral priorities for LFEPA continue to centre on maintaining front line services. In our Pre-Budget Report last year<sup>40</sup> we noted that the Fire Brigade did not have a definition of 'front line' services or a breakdown of the service undertaken by operational fire and rescue staff not classed as front line but nevertheless important.

As noted above, the fire service spends over 67 per cent of its net revenue expenditure on personnel. Within this personnel spend over 97 per cent relates to personnel classed as operational or fire and rescue. With the very small non-operational staff section having come through an organisational review over the past two years, the Brigade has little apparent room within personnel costs to manage further reductions though it may benefit from the shared services project

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<sup>38</sup> Head of Finance, LFEPA, Budget and Performance Committee meeting, 16 September 2009

<sup>39</sup> LFEPA Interim Budget Submission, 17 September 2009, Doc. FEP 1409 page 4

<sup>40</sup> Pre-Budget Report, London Assembly Budget and Performance Committee, October 2008, paragraph 6.4 and 6.5

being undertaken across the GLA group. Without clarity as to what are front line services and other services provided, it is not possible to assess the impact of planned changes on the services Londoners receive from the Fire Brigade.

### Recommendation 10

That the Mayor, in his response to this report, clearly differentiates between the front line services LFEPA is maintaining and services undertaken by operational fire and rescue staff that are not considered front line services, and in particular in which category fire prevention falls.

### The effect of likely government grant cuts from 2011/12

The Mayor has asked LFEPA to prepare budgets for 2011/12 and 2012/13 based on the two scenarios of a government grant freeze and a 1.5 per cent annual reduction in the government grants. The table below compares the upper and lower net revenue expenditure position given in the Mayor's budget guidance for 2010/11 with the unidentified saving required to be met to balance the budget in each year.<sup>41</sup>

£m	2010/11	2011/12	2012/13
<b>Mayor's guidance 2010/11</b>			
<u>Scenario 1 – grant freeze</u>			
Net revenue expenditure	437.3	441.4	442.4
Savings to be identified	1.8	4.89	9.92
<i>Savings as a % of NRE</i>	<i>0.4%</i>	<i>1.1%</i>	<i>2.2%</i>
<u>Scenario 2 – 1.5% grant reduction</u>			
Net revenue expenditure	437.3	437.5	434.7
Savings to be identified	1.8	8.79	13.72
<i>Savings as a % of NRE</i>	<i>0.4%</i>	<i>2.0%</i>	<i>3.2%</i>

The level of saving required over the latter years is not large in either cash or percentage terms. However, given the detailed reorganisation that has reduced the back office significantly, finding further savings of the modest level required in the table above will be a challenge and the final amount is dependent on as yet unagreed pay settlements. It is difficult to see how significant additional savings can be achieved without looking beyond back office functions and, in doing so, LFEPA

<sup>41</sup> LFEPA Interim Budget Submission, 17 September 2009, Doc. FEP 1409 page 4

needs to demonstrate clearly what effect such savings might have on front-line services.

### **The capital spending programmes**

LFEPA continues to underachieve on its capital spending plan and as a result resources and facilities are not being upgraded and maintained as planned. In addition, the financing of the capital spending programme is heavily dependent on the completion of the sale of the old headquarters at 8 Embankment Place. Without the sale proceeds, LFEPA faces either a further deferral to the capital programme or failing to meet its aim of reducing the overall level of debt.

We understand that completion of the sale is subject to two outstanding items: the granting of planning permissions and the developer obtaining finance. In September, LFEPA stated that its professional advisers were confident, in guidance given in July, that the outstanding items were unlikely to cause an issue with the completion of the sale and receipt of the agreed funds. While the risks may be low the effect of a breakdown in the sale would have large implications for LFEPA.

### **Recommendation 11**

The Committee recommends that the Mayor should, in response to this report, provide an updated statement on the sale of 8 Embankment Place and the level of risk to LFEPA of that sale not being completed or for a lower price than previously assumed.

## 5. The Mayor's spending proposals and priorities for the Greater London Authority

### Summary

The Greater London Authority's Organising for Delivery programme is now nearly complete. By the end of October 2009, it had resulted in the deletion of 99 full-time equivalent posts and there were 54 redundancies.

Savings from the programme are expected to be £3.7 million by 2010/11 in line with the amount anticipated at the end of 2009/10. One-off redundancy costs of £1.2 million will be met from the Authority's reserves.

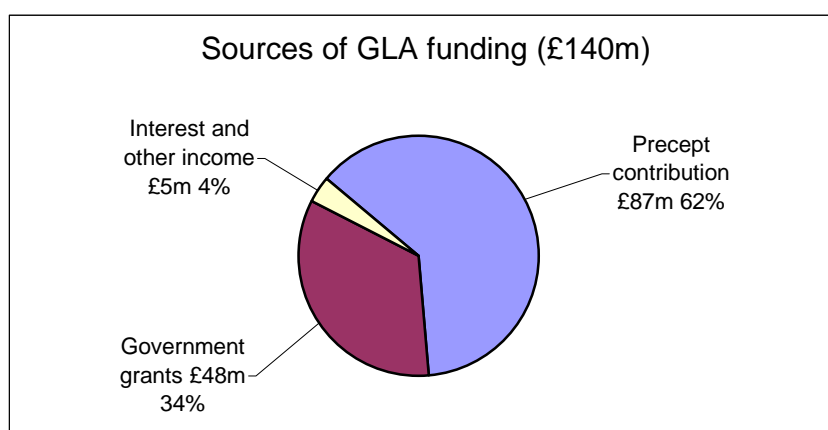
In its forthcoming examination of the draft GLA budget, the Committee intends to look at how the Authority will be set up to deliver the Mayor's priorities under its new structure and reduced level of staff.

### The Role of the Greater London Authority and the Mayor in setting the GLA budget

The Greater London Authority (GLA) is the body which sets the strategic direction of London as a whole. It supports the Mayor to this end and provides support and service to the London Assembly in its role of scrutiny and review of the Mayor. Since 2008/09, the Mayor and Assembly budgets have been treated separately.

The Mayor's financial guidelines relate to the net revenue expenditure of the Mayor and Assembly components of the GLA: government grant and council tax precept. The GLA also receives a relatively small amount of money from interest receipts.

The graph shows the sources of GLA income and their relative size based on the 2009/10 budget.



At 62 per cent of its gross budget, the GLA relies on income from the council tax precept more than either the MPA or LFEPA. However, with a combined Mayor and Assembly budget requirement of £135.3m in 2009/10, the GLA accounted for only 10 per cent of the total call on London council taxpayers.

Although it is a relatively small spending body compared with the functional bodies, the GLA's importance lies in its ability to support the GLA in developing and facilitating delivery of the Mayor's strategic objectives; and in supporting the Assembly to hold the Mayor to account on behalf of Londoners.

#### **Net revenue expenditure for 2010/11**

While the net revenue expenditure figures for the MPA and LFEPA in the Mayor's financial guidelines suggest a small cash increase between 2009/10 and 2010/11, the Mayor and Assembly components of the GLA budget are to be cut in cash terms in 2010/11. The cut in the Mayor's component is masked in the total figure for the Mayor as it includes the Olympic Funding Agreement and grant for the Museum of London which increase slightly from 2009/10 broadly in line with inflation. The change between the two years taking these factors into account is shown in the table below.

<b>£m</b>	<b>2009/10</b>	<b>% change</b>	<b>2010/11</b>
GLA: Mayor	118.4	0.4%	118.9
Olympic Funding Agreement	59.1	0.8%	59.6
Museum of London	9.5	2.1%	9.7
GLA: Mayor minus Olympic Funding Agreement and grant for Museum of London	49.8	-0.4%	49.6
GLA: Assembly	8.7	-1.1%	8.6
<b>Total</b>	<b>245.5</b>	<b>-0.4%</b>	<b>246.4</b>

The Mayor's component of the GLA budget in the Budget Guidance also shows a slight increase of £0.3 million from that planned in the final 2009/10 budget. This is due to the forecast of treasury management income levels being revised downwards as a result of low interest rates.<sup>42</sup>

The final 2009/10 budget showed savings to be allocated for the Mayor's component of the GLA budget of £3.7 million in 2010/11. The Organising for Delivery programme has been the key driver

<sup>42</sup> Answer to Richard Tracey AM to Mayor's question 2285/2009

towards achieving efficiency savings within this budget since 2008. This programme resulted in a net reduction of 99 full-time equivalent posts. 48 voluntary redundancies, turnover of staff and a high vacancy level meant there had only been six compulsory redundancies as of 22 October 2009.<sup>43</sup>

The forecast budget savings from the programme over the three years of the budget plan were reported to the Assembly in July<sup>44</sup> and are:

2009/10 - £1.3m saving
2010/11 - £3.7m saving
2011/12 - £4.0m saving

The savings described as to be allocated in the 2009/10 final budget are therefore expected to be delivered through the Organising for Delivery programme. The total redundancy costs for the voluntary and compulsory redundancies was £1.2 million and this will be funded from reserves.<sup>45</sup>

The Assembly has been consulted on the Organising for Delivery programme through its Business Management and Administration Committee. We do not therefore intend to revisit in detail that debate in this report.

Now that the deletion and creation of posts has largely been completed, attention will inevitably turn to the extent to which the delivery part of Organising for Delivery will be demonstrated. In the Committee's December 2008 response to the Mayor's GLA component budget consultation for 2009/10, we recommended that the Organising for Delivery Programme prioritise key policy areas, including environment. We highlighted the 'risk of drift' created by the reduction of staff and programme budgets pending the bringing forward of reorganisation proposals.

The final Organising for Delivery proposals reduced the size of the Environment team from 41 (39.89 full-time equivalent) to 24 posts.

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<sup>43</sup> Head of Paid Service update on the Organising for Delivery Restructuring Programme, paper to the Business Management and Administration Committee, 22 October 2009

<sup>44</sup> Business Management and Administration Committee, 21 July 2009

<sup>45</sup> Head of Paid Service update on the Organising for Delivery Restructuring Programme, paper to the Business Management and Administration Committee, 22 October 2009



This raises questions about how the large amount of work to be delivered by the environment team will be managed during the transition and beyond; the extent to which temporary agency staff and consultants are being used to help deliver forthcoming Mayoral strategies; and the relative value for money of using agencies and consultants.

In March 2009, there were 12 environment-related projects being undertaken by consultants for the GLA, with budgets totalling around £0.5 million.<sup>46</sup> These included up to £82,000 for the Environment Direction of Travel Statement. The table below sets out the strategies and consultations expected and the latest position on each.

<b>Strategy/document</b>	<b>Due date</b>	<b>Position</b>
Environment Direction of Travel	Spring 2009	Published July 2009
Climate Change Adaptation Strategy consultation	Spring 2009	Not published to date
Water Strategy consultation	Spring 2009	Published August 2009
Waste Management Strategy consultation	Summer 2009	Not published to date
Air Quality Strategy consultation	Summer 2009	Published October 2009
Climate Change Mitigation and Energy Strategy	Autumn 2009	Not published to date

Information was published immediately prior to the publication of this Report on the use of temporary staff and consultants across the Authority.<sup>47</sup> This was not available in time for the Committee to scrutinise it in detail for this report but we will examine it when we respond to the consultation on the draft GLA budget in November. In doing so, we will seek to establish clarity on the progress and method by which the GLA's environmental work programme is being delivered.

<sup>46</sup> Mayor's question 0584/2009 from Darren Johnson AM

<sup>47</sup> Mayor's questions 2643/2009 and 2464/2009 from Mike Tuffrey AM.

## 6. The Mayor's spending proposals and priorities for Transport for London

### Summary

As we warned in our July report on fares, TfL is facing significant financial risks on both the cost and revenue sides of its budget. These stem from the impact of the recession on fares revenue and the continued dispute with Tube Lines over the upgrade and maintenance of the Underground under the PPP.

TfL has a ten-year funding settlement with Government to 2017/18. Under this agreement TfL has an agreed maximum borrowing limit and must plan a balanced financial outcome by the end of 2017/18. The 2008 TfL business plan projects PPP costs significantly lower than that demanded by Tube Lines for the next seven and a half years and projects passenger and fares growth based on assumptions set before the recession reduced demand and fares.

In our July report we highlighted the resulting funding gap in TfL's finances. We suggested this gap would need to be filled by a combination of options:

- increasing fares by much more than inflation
- deferring or cancelling planned improvements and expansions
- finding efficiency savings further to the £2.4 billion already required under TfL's Business Plan.

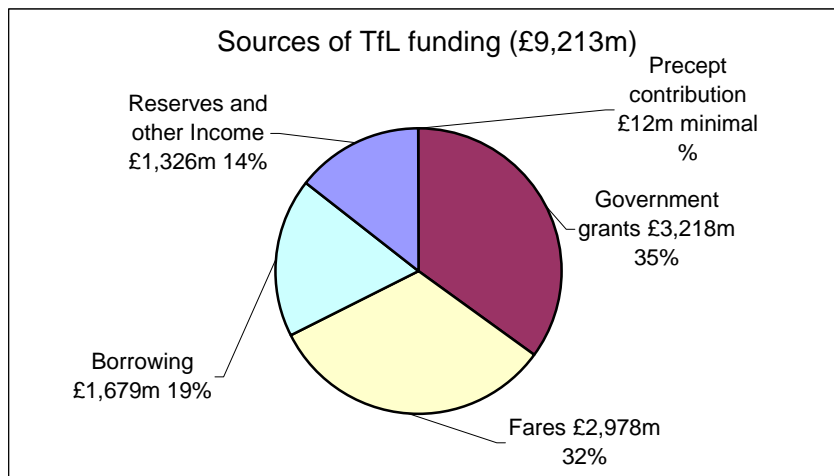
The Mayor has recently announced a combination of each of these options: bus and tube fares are to increase on average by 12.7 and 3.9 per cent respectively in 2010 in the context of inflation of -1.4 per cent; the forthcoming TfL business plan will include details of services to be cut and improvements to be delayed; and the Mayor announced proposed TfL efficiency savings of £5 billion, more than double the £2.4 billion previously announced.

Further details of the services cuts and efficiency savings are expected in a revised TfL business plan to be published shortly.

### The Role of the TfL Board and the Mayor in relation to the TfL budget

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.

Overall funding for TfL's requirements are approximately equal shares of fares revenue, government grant and the use of prudential borrowing and past reserves. Under a ten year funding settlement from 2007 (SR07), TfL has agreed government grants for each year to 2017/18 provided it keeps within maximum levels of prudential borrowing.



The council tax precept contribution to TfL each year since 2001 has been minimal compared to its overall funding requirements. The Mayor has continued the policy of his predecessor of retaining the nominal funding from the council tax and has looked to fare revenue as his main policy lever in relation to TfL's budget. It would be open to this Mayor or his successors to revisit the assumption that London's council taxpayers should not make a significant contribution to TfL.

Based on the SR07 agreement, TfL established a balanced business plan in 2008 for the period to 2017/18 setting out the level of transport services and planned improvements to be provided using all agreed government grant and all permitted borrowing. Under this spending agreement and business plan there is no general possibility to balance any shortfall in fares revenue with greater borrowing or grant request.

As we pointed out in our July report any fall in fares revenue directly affects the funds available and will require fare rises, additional efficiency savings or scope reductions to ensure the budget remains balanced.

### **The risk to TfL revenue from the recession**

Fares revenue was planned to contribute £2.98 billion or 32.2 per cent of total funding in 2009/10. In addition to being a material source of funding for TfL it is the only such source of income that is not fixed or capped under the SR07 agreement. Fare revenue is determined by both the total number of paying passengers and the level of fares paid by them. The Mayor sets the level of fares. The level of demand by passengers is influenced by a range of factors including the economic wellbeing of London.

The 2008 TfL business plan, due to be revised, assumes a continued increase in passenger demand year on year and fares increasing annually at RPI plus one per cent. Both the increase in passenger demand and the increase in the fares are required to retain a balanced business plan by 2017/18 with RPI required to be over 2.5 per cent in each year to achieve the fares revenue required.

In 2009/10, demand for travel has been affected by the recession and is significantly lower than the business plan expected. It is also lower than the revised assumptions used by TfL in its final 2009/10 budget. In addition RPI in July 2009, which is used to inform the fares decision, was negative 1.4 per cent.

In March this year TfL published its final 2009/10 budget. This reduced travel demand assumptions from previous drafts to take account of the impact of the recession. In doing so, it reduced its estimate of fares revenue by £112 million. In our report in July this year<sup>48</sup> we examined the impact on TfL fare revenue of the recession and projected income forward based on assumptions from the government and Bank of England about the timing and rate of growth in the economy as we move out of recession. We found that using these assumptions TfL faces a funding gap from the recession of between £0.4 billion and £1.7 billion by 2018.

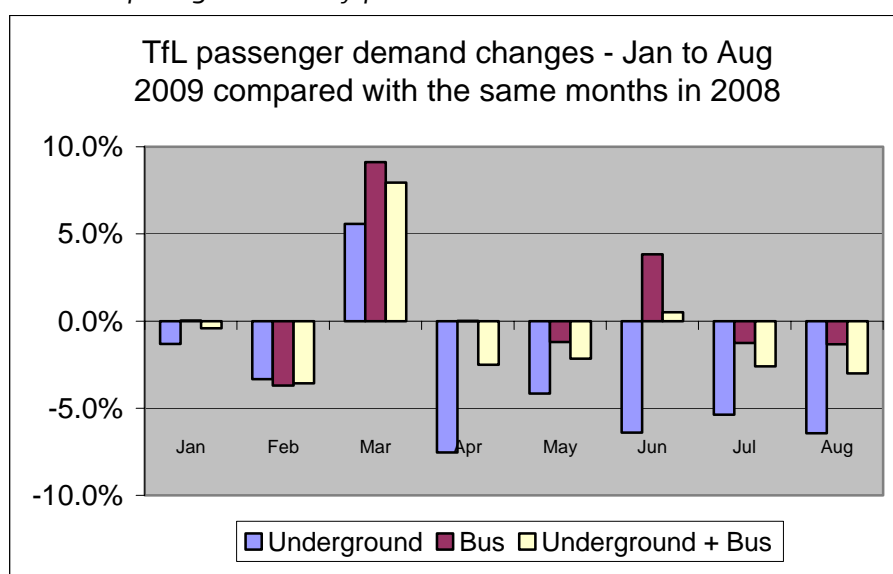
The analysis in this report used as its baseline going forward TfL's demand assumptions in its March 2009 budget and an assumed fares freeze in 2010 given the rate of inflation in July. Since our report, TfL data on passenger demand levels suggest demand is falling further than TfL was able to predict in March. For example, in August 2009 demand for Underground trips was 6.4 per cent lower than in August

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<sup>48</sup> A fare decision? The impact of the Mayor's fares decision, London Assembly Budget and Performance Committee, July 2009

2008 with combined bus and Underground demand 3 per cent lower.<sup>49</sup> This suggests demand is actually falling as opposed to the rate of growth reducing as TfL had assumed in its March 2009 budget. This had assumed growth in demand on the Underground of 0.6 per cent in 2009/10 compared with the 3.6 per cent growth assumed in the business plan published in October 2008.

*Table comparing demand by period between 2009 and 2008<sup>50</sup>*



In addition to the fall in passenger demand RPI inflation had fallen to negative rates by the middle of 2009.<sup>51</sup> In setting 2009 fares the Mayor stated the need to apply and maintain fare increases in excess of inflation with an RPI plus one per cent formula. This was in line with the assumed decisions in later years as part of the balanced TfL Business Plan.<sup>52</sup>

Emerging figures on passenger demand suggest the scale of the financial challenge facing TfL from the recession are even greater than we anticipated in our July report.

<sup>49</sup> TfL data and analysis on demand, August 2009 and 2008 normalised to a standard TfL 28 day period.

<sup>50</sup> TfL data on passenger trips to period 5 2009/10 normalised to 28 day periods compared to the same period in 2008/09. The third period in calendar 2009 overstates demand increases due to the Easter holiday falling in a different periods in 2008 and 2009.

<sup>51</sup> August 2009 RPI was negative 1.4 percent, Office of National Statistics

<sup>52</sup> A fare decision? The impact of the Mayor's fares decision, London Assembly Budget and Performance Committee, July 2009, Section 2

### 2010 fares decision

On 15 October the Mayor announced his fare package for 2010.<sup>53</sup> In doing so he noted the reduced demand for travel which was adversely affecting fare income and the effect of rising costs relating to the upgrading of the Underground.

Average fares on buses are to increase by 12.7 per cent and average fares on the Underground are to increase by 3.9 per cent. These increases are 14.1 per cent and 5.3 per cent above the inflation figure in July which is used as the basis for fare decisions. The Mayor's ability to set the fares for travel cards is restricted because he is required to align such increases with national fare rises which are tied to inflation in July 2009 (-1.4 per cent). Therefore travel card costs will be frozen in 2010.

The Mayor also announced that the revised TfL business plan would assume future fare rises of RPI plus two percent. This does not tie the Mayor to rises of this level but it does give an indication of the size of increase required to deliver the proposals in the business plan. These assumed increases are higher than the maximum allowed for regulated national rail fares which are capped at RPI plus one per cent.

The fare announcement was also accompanied by proposals to save money by reducing services and delaying improvements. Details of these will be included in the revised TfL business plan to be published and agreed by the TfL Board shortly. They will include 'the deferral by three years of all remaining former Metronet Tube station renewals, the work to upgrade Victoria Tube station now to be completed in 2018, available resources for step-free access schemes on the Tube targeted at the stations where they can deliver the greatest benefit for the largest number of passengers, and some limited bus service reductions, and minor reductions in service on a few sections of the Tube, to reflect changes in passenger demand'.<sup>54</sup>

The 2010 fares package and the forthcoming revised TfL Business Plan clearly have large implications for fare payers, the services they receive and the timing of planned improvements to the network. The Committee will examine this information in detail as it prepares to respond to the Mayor's budget proposals for TfL in his December consultation on the draft consolidated budget.

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<sup>53</sup> "Fares for 2010", Mayor's press release, 15 October 2009

<sup>54</sup> Ibid

At this stage, we simply note that in an article for the Evening Standard on the 2010 fares package, the Mayor said it had 'been produced after long consultation'. As we pointed out in our July report there was no consultation with Londoners nor the Assembly on their behalf. Furthermore, when we highlighted the risks to TfL's budget in this report, TfL immediately rebutted our findings and attributed to the report conclusions that it did not in fact make.<sup>55</sup> We welcome the more considered approach to this report from the Mayor earlier this month<sup>56</sup> and look forward to more constructive engagement from TfL in the coming months over the implications for Londoners and TfL of the 2010 fares decision and revised business plan.

#### **The risk to TfL costs from the PPP second period review**

TfL is also facing significant challenges in relation to its costs and in particular the cost of upgrading the London Underground.

The major proportion of the upgrade of the Underground is the subject of 30-year PPP contracts. Each contract consists of four seven and a half year review periods. Following the insolvency and collapse of Metronet, its obligations were brought under the control of TfL. This left one PPP contract with Tube Lines to maintain and upgrade the Jubilee, Northern and Piccadilly lines.

Initial negotiation of costs for the second review period that is to commence in 2010 resulted in a reference to the PPP Arbiter last year for guidance. The Arbiter's initial guidance disclosed a cost gap between TfL's estimates and his estimate of reasonable cost in excess of £1 billion pounds.<sup>57</sup> Following further discussions TfL issued restated terms for the second review period to Tube Lines. Tube Lines issued a cost estimate on the restated terms to TfL in June. TfL argued that this 'price [was] significantly in excess of [TfL's] £4.2bn evaluation and ... was also much higher than the price indicated by the PPP Arbiter in his guidance'.<sup>58</sup>

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<sup>55</sup> "Mayor and TfL statement in response to London Assembly Budget and Performance Committee report on fares" 10 July 2009. This stated "it is unrealistic to predict that the economic climate will remain stationary until 2018". In fact, the Report's findings, as clearly stated, were based on two assumptions of the economic recovery from the Treasury and Bank of England.

<sup>56</sup> See Mayor's 14<sup>th</sup> report to the Assembly October 2009

<sup>57</sup> Delays possible: maintaining and upgrading the London Underground, London Assembly Transport Committee, Report March 2009

<sup>58</sup> TfL media release "TfL calls on PPP Arbiter to set a fair price for Tube Lines contract" 23 September 2009

TfL has now referred the Tube Lines costs for the second review period to the PPP Arbiter for a determination. Much will depend on the Arbiter's final decision and any further negotiations between the two parties. It remains the case that, despite restating the terms, TfL faces potential additional risks relating to the cost of essential maintenance, operations and upgrading of the Underground; the level of risk that it takes on; and the scope of the PPP upgrades.

The Committee notes that TfL is currently working on a revised business plan due for release in October this year. We expect this to show the savings, adjustments and cost reductions required as a result of the financial pressure from the recession and the PPP to balance the business plan within the terms of SR07. In particular, we will be looking to the areas TfL identifies for reduced spend to meet the extended efficiency savings identified by the Mayor in his announcement at the Conservative Party conference.<sup>59</sup> We also hope to see clarification of priorities within the TfL capital programme and operational service provision and any revision in the levels of service quantity and quality that may be planned.

### **The Mayoral priorities for TfL**

The Mayoral budget guidance set out under the theme of cleaner, greener, more efficient and accessible transport and technology three specific areas relating to transport in London:

- A modern, efficient, reliable public transport network
- Quicker, smoother, safer road transport
- Sustainable transport<sup>60</sup>

Within this Mayoral theme TfL has been tasked to include specific measures<sup>61</sup> and areas including the delivery of Crossrail on time and within budget.

Significant funding for Crossrail is included in the SR07 funding settlement for TfL and the business plan capital programme includes the cost of Crossrail and the funding from government grant. There remains a significant call on both TfL's long-term fares revenue and London businesses to fund the Crossrail development.

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<sup>59</sup> Conservative Party Conference, 5 October 2009

<sup>60</sup> Mayoral Budget Guidance 2010/11, June 2009, Appendix B

<sup>61</sup> Mayoral Budget Guidance 2010/11, June 2009, Appendix C



Similarly, some of the priorities specifically set out for TfL in the Mayor's budget guidance appear to require additional spending to deliver. For example, the phasing out of articulated buses and the development of the new bus for London was a key manifesto commitment. It will involve additional spending. The additional cost of replacing articulated buses for the three routes replaced to date was £3.5 million per year.<sup>62</sup> That said, these costs should be seen in the context of total TfL bus costs in 2009/10 of £1.8 billion<sup>63</sup> (0.2 per cent).

In an environment of subdued demand and low inflation, TfL faces some increased tension between the need to provide operational services while supporting and maintaining the various Mayoral priorities and manifesto commitments. In particular, Crossrail development and TfL's significant capital programme will require major cash outflows in the coming years. We await the final revised TfL business plan setting out how they are to deliver both a balanced budget and Mayoral priorities.

The Mayor's recent announcement that TfL will be required to deliver efficiency savings of £5 billion by 2017/18 more than doubled the savings target of £2.4 billion previously announced. Exactly where these savings are to be found and their effect on services are key questions which remain.

### **Recommendation 12**

In his response to this Report, the Mayor should provide a detailed description of the efficiency savings identified by TfL to date and progress towards identifying the £5 billion target he recently announced.

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<sup>62</sup> TfL London Buses written response to issues raised in consultation on conversion of Routes 38, 507 & 521 from articulated buses, December 2008.

<sup>63</sup> TfL Business Plan 2009/10-2017/18, Page 71, Table 3.

## 7. The Mayor's spending proposals and priorities for the London Development Agency

### Summary

The London Development Agency (LDA) is under increased pressure to perform and help Londoners through this tough economic time, but with significantly reduced resources the LDA will find it difficult to make a big impact.

The recently identified budget commitment for Olympic land costs of £159 million has not only damaged the Agency's reputation but has significantly reduced its resources. The current year programme budget has been cut by £45 million and commitments of £47 million due in 2010/11 together with the government grant claw backs of £53 million will mean that the LDA's available resources for 2010/11 will be over 20 per cent less than was anticipated when the grant settlement was made in 2007.

Moreover, financial prospects for the Agency from 2011/12 look set to worsen. Government grants reductions are likely to affect the LDA more than other GLA functional bodies and the financial implications of the additional Olympic land costs will not have been fully dealt with. The LDA is anticipating that its 2012/13 programme budget will be around 60 per cent of its equivalent budget in 2008/09.

With significantly reduced resources, uncertainty over government grant levels from 2011/12, and the financial implications of transferring Olympic legacy responsibility to the Olympic Park Legacy Company not finalised, the agency is under increased pressure to use its funds effectively and prioritise programmes appropriately.

The Agency has a real opportunity to do just this through its new investment strategy. It is vital that the LDA gets its new investment strategy right and ensures the Agency invests, prioritises and focuses its limited resources effectively.

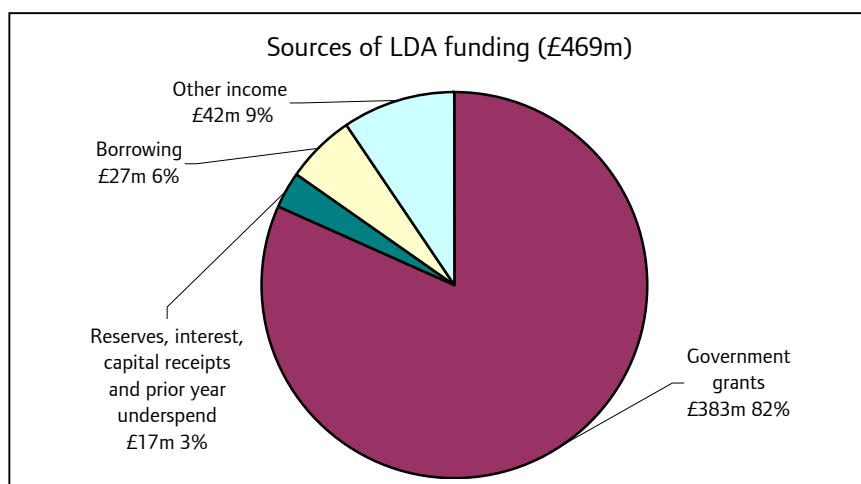
The LDA is an organisation that has had problems since its inception. It has had numerous restructures but continues to fail to inspire confidence that it can deliver effectively and efficiently. The Agency must develop and implement a strategy and working practice that improves its reputation as London's lead Agency on economic development and regeneration and gain the respect of Londoners.

### The Role of the Mayor with regard to the LDA budget

The London Development Agency (LDA) is the body responsible for driving London's sustainable economic growth. It works with the Mayor co-ordinating economic development and regeneration across London and is responsible for delivering the Mayor's Economic Development Strategy. Until recently it was the guardian of the Olympic and Paralympic Games Legacy, but the Olympic Park Legacy Company (OPLC) is taking over this role.

The LDA makes no call on the council tax precept and receives the majority of its funding directly from government. Like his predecessor, the Mayor has decided not to raise money through the council tax precept to fund the LDA. The Mayor does have the power to do so under the GLA Act 1999, as amended.

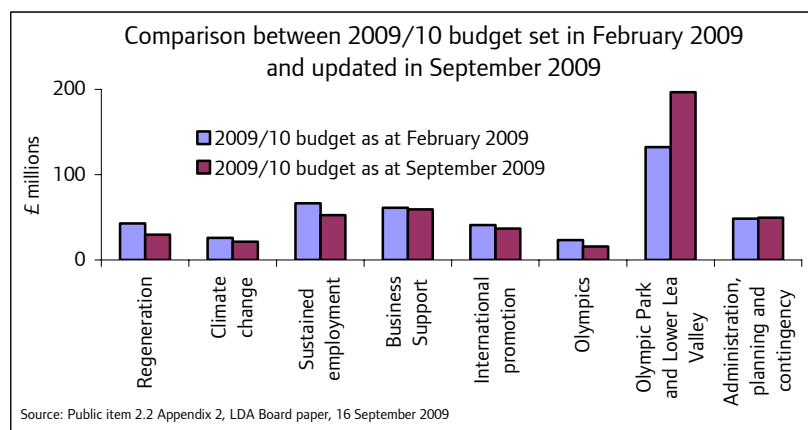
The LDA's gross budget expenditure for 2009/10 was set at £469 million. £383 million was expected to come from a government grant, £27 million from borrowing and the remainder from other sources.<sup>64</sup> The graph below shows the sources of LDA income and their relative size based on the 2009/10 budget.



Unlike other GLA functional bodies, the LDA is a strategic investment Agency with the majority of its expenditure being given to contracted external organisations. As such, the LDA has far more flexibility than other functional bodies to change the allocation of its budget during the year and does so to take into account changes in funding and changes in investment priorities. The table below shows how budget allocations have changed between February 2009 when the original

<sup>64</sup> GLA Group consolidated budget 2009-10

2009/10 budget was set and when it was most recently updated in September 2009.



### Lack of confidence in LDA budgets

The discovery of a £159 million shortfall in the LDA budgets calls into question the Agency's accountability and the reliance that can be placed on its budgets going forward. Firstly, the LDA's ability to forecast and budget accurately must be questioned with land costs coming in 16 per cent over budget. Secondly, and more importantly, the time it has taken to identify the shortfall casts doubt on the quality of the Agency's internal controls, management oversight and assurance processes.

The LDA has acquired the majority of the Olympic land through compulsory purchase orders. This is a complex process that involves agreeing compensation payments with more than 190 landowners and a site of over 800 acres. For this reason, estimating the costs of land acquisition accurately was always going to be difficult and require an element of flexibility to be built into its budget. It is therefore surprising that bigger contingencies were not built into land purchase budgets. The original funding strategy had a contingency of £31 million and the strategy that was updated in September 2008 only had a contingency of £32 million.<sup>65</sup> This represents approximately three per cent of total estimated land costs and as the recently identified shortfall has proved, this was not sufficient.

An investigation into the shortfall by KPMG has reported that indications of the shortfall were available to management within the Olympic Legacy Directorate of the LDA from as early as April 2008.<sup>66</sup>

<sup>65</sup> Olympic update, LDA Board paper, public item 6.2, 8 September 2008

<sup>66</sup> A report by KPMG, 'Olympic Land Development, OLD Findings and Recommendations', 8 September 2009

This being the case, it is alarming that senior management, internal auditors and the District Auditor did not discover the shortfall sooner.

Given that the Olympic land acquisition budget is close to £1 billion, the Agency should have had robust controls in place to ensure the monitoring and reporting of the budget was accurate and up-to-date and these should have been regularly tested by the internal auditors and reviewed annually by the District Auditor. The LDA told the Assembly that the full KPMG report cannot be made publicly available because it contains personal information relating to LDA employees. It is not therefore possible for the Committee to gain a full understanding of the auditors' involvement and why they did not discover the shortfall through their work.

However, it has become clear that senior managers were relying on information from the Olympic Legacy Directorate that was not produced or reviewed by a qualified accountant. Similarly, no senior LDA officer was prepared to take responsibility for the accuracy of the information from the Directorate.<sup>67</sup>

The Chair of the LDA told the Economic Development, Culture, Sport and Tourism Committee, in a meeting on the Olympic budget shortfall, that the Board was using flawed and inaccurate information. He explained that the shortfall had been discovered due to new controls implemented by the new administration when it took office in September 2008. Representatives of the LDA explained in the meeting that they have now carried out a series of reviews and that they were sure every project was up-to-date in the rest of the Agency and that the Olympic Legacy Directorate was an 'outlier' and not representative of the rest of the Agency.<sup>68</sup>

This incident has damaged the Agency's reputation and has reduced Londoners' confidence in the LDA's ability to produce and monitor budgets accurately. It is important that the LDA is more transparent about the details of how the shortfall was able to go undetected for almost a year. It must do everything within its power to demonstrate that lessons have been learnt, controls improved and sufficient testing

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<sup>67</sup> A report by KPMG, 'Olympic Land Development, OLD Findings and Recommendations', 8 September 2009

<sup>68</sup> Chair of the LDA Board and the Chief Executive Officer speaking at a meeting of the Economic Development, Culture, Sport and Tourism Board on 15 September 2009.

of other budget areas carried out to ensure budgets going forward can be relied upon.

### Recommendation 13

In response to this report the LDA should provide an explanation of the work that has been carried out to ensure that other budget shortfalls do not exist and the budget is based on accurate and up-to-date information. The response should include assurance from senior management that they are satisfied with controls and systems in place at the LDA and that they believe the budgets are based upon a true and fair representation of the LDA's financial position.

### The Implications of the Olympic land budget shortfall for the LDA budget and the LDA's ability to achieve its performance targets

Current estimates suggest that the LDA will need to find an extra £161 million of funding by the end of 2010/11 due to the discovery of a £159 million budget shortfall and the advancement of £2 million of acquisition costs originally timetabled for 2012/13. The table below shows a breakdown of when the commitment will need to be paid and where the LDA have found funding to pay the commitment due by the end of 2009/10.

<b>Funding of Olympic land budget shortfall<sup>69</sup></b>	<b>£m</b>
Use of underspends, reserves and changes in contingencies	12
Reductions in programme budgets	45
ODA payment deferral and capital receipt advancement	57
<b>Total shortfall payment due by end of 2009/10</b>	<b>114</b>
<b>Funding to be identified in 2010/11</b>	<b>47</b>
Less costs brought forward from 2012/13	-2
<b>Total shortfall funding required</b>	<b>159</b>

£45 million has been taken from 2009/10 programme budgets to fund the shortfall. This represents over 10 per cent of the original programme budget for the year<sup>70</sup> and one might expect this to mean that a similar portion of targeted outputs and outcomes are not achieved. However, LDA representatives told the Committee that the £45 million reduction in programme budgets in 2009/10 would have a minimal effect on the LDA's ability to achieve its targeted outcomes

<sup>69</sup> Olympic land commitments and revised budget 2009/10, LDA Board Paper, public item 2.1, 16 September 2009

<sup>70</sup> Programme budget includes Olympic budget

for the year.<sup>71</sup> The LDA expects that it will achieve 10 of its 13 outcome targets for 2009/10 and the three targets that will not be achieved were unlikely to have been achieved even if there had been no reduction in funding.

The LDA explained that this was due to outcomes being longer-term measurements and therefore that reductions in programme budgets in 2009/10 will not lead to immediate falls in outcomes and outputs.<sup>72</sup> For this reason the full effect of the £45 million reduction in programme budgets will not be known until future years. The LDA told the Committee it would be revising its output targets for future years in light of the budget reductions. The Budget Monitoring Sub-Committee will look at the effects of the programme reductions when targets are revised.

The Agency's climate change programme is one area of the budget that is particularly hard hit in 2009/10 and will experience cuts to its budget of £4.5 million due to the Olympic budget shortfall.<sup>73</sup> According to the LDA, £1 million of this reduction will have 'zero impact' on the environment programme as 'during budget planning in October 2008 this project was allocated £9 million, LDA commitments had only ever been £8 million'; and £0.6 million will not require any project rephasing as the budget had been 'over inflated at the planning stage'.<sup>74</sup>

It is surprising that £1.6 million can be cut from the programme without affecting the programme plan. A Budget and Performance Committee report earlier in the year on the GLA group environment spend, found that the 2008/09 LDA environment programme had only managed to spend £5 million of its allocated budget of £18 million for the year. Given the LDA's history of underspending, the Committee expressed concern over the LDA's ability to find the capacity needed to use its budgets in 2009/10. But LDA representatives assured the Committee, that the required capacity

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<sup>71</sup> LDA Group Director of Strategy, Resources and Performance speaking at the Budget and Performance Committee meeting on 13 October 2009

<sup>72</sup> Deputy Chief Executive to the Budget and Performance Committee 13 October 2009

<sup>73</sup> Savings briefing note, LDA board paper, public item 2.2, Appendix 2 given to the Economic Development, Culture, Sport and Tourism Committee after its meeting with LDA representatives on 16 September 2009

<sup>74</sup> *ibid*

ould be delivered in 2009/10.<sup>75</sup>

It would appear that the LDA environment programme in 2009/10 included an element of slack and would have needed additional projects to have been identified during the year in order to spend its original budget.

#### **Recommendation 14**

The Committee is unconvinced that current LDA targets are a useful tool for assessing the Agency's effectiveness. Targets should be benchmarked against previous performance and other regional development agencies. In response to this report, the LDA should provide an updated list of programme targets for 2009-2012 that takes into account the reduction in programme budgets due to the Olympic budget shortfall.

Beyond the current year, funding the Olympic shortfall will mean that the Agency has reduced resources of £47 million in 2010/11 and possibly more if capital receipts are lower than originally budgeted as a result of the £27 million taken early in 2009/10. When this is considered along with the cuts in government grants from 2010/11 (see section below), the LDA's resources will have reduced by almost £100 million (20 per cent) compared to the original 2010/11 budget.<sup>76</sup>

The LDA has suggested that it is considering the option of increasing borrowing, but is aware that if it is not careful it will just be deferring the problem to later years.<sup>77</sup> The Committee welcomes the LDA exploring the possibility of increasing borrowing to try to spread the impact of budget reductions over a few years. However, clearly there are risks in increasing borrowing, and with difficult financial times ahead and further government grant cuts being likely, it may not be prudent or affordable to increase borrowing. Given the severity of the situation and the impact the shortfall is having on programme budgets this year and next year, all options should be considered.

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<sup>75</sup> Martin Powell, Director of Projects, LDA, speaking at the Budget and Performance Committee meeting on 27 April 2009

<sup>76</sup> GLA Consolidated Budget and Component Budget for 2008-09

<sup>77</sup> LDA Chief Executive Officer speaking at an Economic Development, Culture, Sport and Tourism meeting on 16 September 2009



### **The effect of transferring Olympic legacy responsibility out of the LDA**

The LDA is currently in negotiations with government over the transfer of Olympic land to the Olympic Park Legacy Company (OPLC). The outcome of the negotiations is likely to impact on the Agency's level of future resources. It is vital that the LDA successfully negotiates a position whereby taking on the responsibility for the purchase and remediation of the Olympic site does not leave the Agency out of pocket.

Until recently the Olympic Legacy Directorate within the LDA had responsibility for the Olympic legacy but this has now been transferred to the OPLC. On transfer, Olympic land ownership will move to the OPLC and the Olympic Legacy Directorate at the LDA will be disbanded with some its functions and staff moving to the OPLC.

The LDA is in discussions with Government over the valuation of the land that will be transferred to the OPLC; repayments of the associated debt incurred by the LDA in purchasing the land originally; obligations agreed under the Memorandum of Understanding to make further payments to the Olympic Delivery Authority; and the £159 million of recently identified additional land acquisition costs.

The Chief Executive of the LDA told the Economic Development, Culture, Sport and Tourism Committee in September that he envisaged that the agreement would involve the transfer of land at market value along with the associated debt, but that some debt would still be left within the LDA.<sup>78</sup> LDA representatives suggested that, similar to terms set out in the original Memorandum of Understanding, the LDA would retain an element of any gains made from the sale of the land in the future, but that the timing of debt repayments and the realisation of any gains from future land sales were likely to be deferred.<sup>79</sup>

Until the LDA and government finalise their agreement, it is unclear where the risks and rewards of Olympic land ownership will lie. With land acquisition costs now expected to be over £1.1 billion; government debt of £687 million still to be repaid along with its associated finance costs; £500 million still due to the government from the LDA under the 2012 Olympics revised Memorandum of

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<sup>78</sup> Chief Executive of the LDA speaking at the Economic Development, Culture, Sport and Tourism Committee meeting on 16 September 2009.

<sup>79</sup> Chair of the LDA Board speaking at the Economic Development, Culture, Sport and Tourism Committee meeting on 16 September 2009.

Understanding<sup>80</sup>; and uncertainty over the level of capital receipts from the sale of the land after the games, it is clear that the outcome of the negotiations will have a huge impact on LDA resources and ability to carry out programmes in the future.

### **Recommendation 15**

The outcome of negotiations over the transfer of Olympic Legacy responsibility will have a significant effect on the LDA's future resources and budgets going forward. The consultation draft budget due to be published for consultation with the Assembly in December should include a section explaining the impact that the transfer of Olympic Legacy responsibility to the Olympic Park Legacy Company will have or is likely to have on the LDA budgets going forward. Explanations should include details of all the potential risks and rewards relating to the Olympics that the LDA will still face after the transfer.

### **The effect of government grant cuts in 2010/11**

In 2007 the indicative government grant for 2010/11, as agreed with government as the last year of a three-year grant settlement, was £376 million. Since then the government has made several cuts to the LDA's grant to fund its own nationwide initiatives and by July 2009 the grant had been reduced to £323 million.<sup>81</sup> This reduction is equivalent to the LDA's total expected expenditure on 'sustained employment' programmes in 2009/10.<sup>82</sup>

The reductions have come about as a result of several claw backs by government and further reductions are likely before the end of 2010/11. A recent announcement made by the government suggests that they will be taking money from Regional Development Organisations to fund a national housing programme.<sup>83</sup>

The Mayor has written to government to object to this further cut and has said that further cuts will almost certainly mean that the LDA has to go back on funding commitments, as the LDA's budget for

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<sup>80</sup> Olympics update, LDA Board paper, public item 6.2 - £550 million contribution was due to 'ODA construction costs'. £50 million was paid in 2008/09, £50 million is due in 2009/10 but the LDA is looking to defer £30 million of the payment.

<sup>81</sup> Financial planning assumptions, Investment and Financial Strategy 2010/11 – 2013/14, LDA Board paper, public item 2.1, 22 July 2009

<sup>82</sup> Total expenditure on sustained employment programme for 2009/10 was £52.7 million. LDA Board papers, public item 2.2, Appendix 2, 16 September 2009.

<sup>83</sup> Investment and Financial strategy 2010/11 – 2013/14, LDA Board paper, public item 2.1, 22 July 2009

2010/11 is already fully committed.<sup>84</sup> The Committee welcomes the Mayor's representations to government on this issue.

### **Government grant reductions from 2011/12**

The LDA is preparing its budgets for 2011/12 and 2012/13 based on the assumption that there will be significant cuts in government grants. Budgets are based on the assumption that the £53 million of government grant clawbacks that were originally assumed to be one-off cuts to the 2010/11 grant will continue and reduce the base position going forward. On top of this five per cent per annum cash reductions are assumed from 2011/12.<sup>85</sup>

This means that the LDA is planning for a grant that is £69 million (18 per cent) less than the expected grant included in the 2009/10 three year budget for 2011/12. Or to put this in context in another way, if the LDA's assumptions about future grants are correct, the LDA that will operate in 2012/13 will have around 60 per cent of the programme budget of the organisation that operated in 2008/09. Even allowing for efficiency savings and better value for money, the impact that such an organisation can have on regeneration, climate change and support for businesses in the capital must be severely curtailed.<sup>86</sup>

There is a need for the LDA to ensure that its lobbying of government prior to any negotiations on government grant levels, adequately addresses the severity of the LDA funding reductions.

### **Change in priorities**

The LDA is in the process of developing a new investment strategy. This provides the Agency with a real opportunity to reassess how it goes about its business and adapt its investment methodology to focus on the areas that make the optimal use of its resources and maximise the benefit to Londoners. This is particularly relevant as the responsibility and expectation placed on the Agency in tough economic times heightens, but the resources it has been given to carry out its work diminish.

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<sup>84</sup> The Mayor speaking to press on 3 July 2009, 'Brown to slash £22m from Boris Johnson's development budget', *The Guardian.co.uk*, 3 July 2009

<sup>85</sup> LDA Group Director of Strategy, Resources and Performance speaking at the Budget and Performance Committee meeting on 13 October 2009

<sup>86</sup> The LDA's programme budget in 2008/09 was £274 million (after Olympic costs are taken off); the assumption for the 2012/13 budget

The LDA Board agreed the new investment themes earlier in the year but as recently as the September LDA Board meeting, members expressed their concern over the investment methodology and the principles used for allocating resources to programme areas. It is concerning that LDA Board members felt, with less than a month before the beginning of the public consultation on the strategy, that they had not been given sufficient time to assess the strategy, that communication between LDA officers and the Mayor's Office had been lacking, and in the views of some members, the investment methodology was flawed.<sup>87</sup>

The LDA investment strategy must be based on sound methodology that can be easily understood by all stakeholders and that LDA Board members are happy to use as a basis for decision-making. It should set out clear criteria and priorities from which the LDA Board can use its judgement to make the right decisions.

#### **Recommendation 16**

The investment strategy should include a detailed explanation of how the LDA investment methodology works, allowing all stakeholders to gain a clear understanding of how and why the LDA has chosen to prioritise its resources as it has. It should provide a clear understanding of how the LDA is choosing to prioritise and allocate its funding which can then be seen in action in the 2010/11 draft budget.

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<sup>87</sup> Discussion by LDA Board members on public item 2.2, in LDA Board meeting, 16 September 2009

# Appendix 1 Recommendations

## **Recommendation 1**

That, in his response to this Report, the Mayor sets out his analysis of the key risks to the future funding of the functional bodies, setting out as far as possible at what level of cuts front-line services would be put at risk.

## **Recommendation 2**

The Committee recommends that it should be the key priority of the Mayor in the next 12 months to ensure that, whichever party is in government from June 2010, London's services are protected. By highlighting the significant savings achieved and planned by the functional bodies in recent years the Mayor should highlight the risks to services of further cuts in the next Comprehensive Spending Review. The Mayor should work to build a broad public consensus, including London boroughs and the Assembly, to argue for the protection of London's services by ensuring a fair return for London's contribution to the exchequer. The Mayor should report back to the Committee on the steps he is taking to make the case for London by February 2010.

## **Recommendation 3**

The Mayor must ensure that the functional bodies demonstrate in their business plans how their expenditure relates to his policy themes and priorities as set out in the strategic plan. Expenditure should be linked to these priorities, and related outputs and targets, so that the expected outcomes from this expenditure are clear.

## **Recommendation 4**

The Mayor should ask the MPA to publish by the start of the 2010/11 financial year details of its funding sources including those from outside bodies, such as London boroughs, and how these contribute to policing levels.

## **Recommendation 5**

The Committee recommends that the MPA produces a measure of frontline service capacity by April 2010 so that the service impact of budget savings can be understood.

#### **Recommendation 6**

We recommend that the Mayor reports MPA progress on bringing forward savings projects in his response to this report. The response should include the section of the MPA's draft budget submission on outstanding issues and uncertainties. This should include a risk assessment of savings projects not being successfully advanced and savings having to be made by reducing front line service capacity in 2011/12 and 2012/13.

#### **Recommendation 7**

The MPA should prioritise ensuring that capital budgets are fully used during the year and demonstrate how this is being done in its quarterly monitoring reports. Reports should clearly differentiate between capital underspend that has occurred due to a decrease in available funding, and deferrals that have occurred due to operational delays.

#### **Recommendation 8**

The Committee recommends that the MPA continues to explore the possibility of increasing borrowing to bring forward capital programmes and makes a decision before the end of the 2010/11 budget setting process. Particular attention should be placed on the possibility of bringing forward capital programmes that will provide revenue savings over the next three years.

#### **Recommendation 9**

In response to this report, the Committee asks the MPA to provide details of the rationale for increasing its general reserve. It should explain what consideration has been given to using the general reserve to advance capital programmes or to provide a contingency against possible reduced capital receipts.

#### **Recommendation 10**

That the Mayor, in his response to this report, clearly differentiates between the front line services LFEPA is maintaining and services undertaken by operational fire and rescue staff that are not considered front line services, and in particular in which category fire prevention falls.

### **Recommendation 11**

The Committee recommends that the Mayor should, in response to this report, provide an updated statement on the sale of 8 Embankment Place and the level of risk to LFEPA of that sale not being completed or for a lower price than previously assumed.

### **Recommendation 12**

In his response to this Report, the Mayor should provide a detailed description of the efficiency savings identified by TfL to date and progress towards identifying the £5 billion target he recently announced.

### **Recommendation 13**

In response to this report the LDA should provide an explanation of the work that has been carried out to ensure that other budget shortfalls do not exist and the budget is based on accurate and up-to-date information. The response should include assurance from senior management that they are satisfied with controls and systems in place at the LDA and that they believe the budgets are based upon a true and fair representation of the LDA's financial position.

### **Recommendation 14**

The Committee is unconvinced that current LDA targets are a useful tool for assessing the Agency's effectiveness. Targets should be benchmarked against previous performance and other regional development agencies. In response to this report, the LDA should provide an updated list of programme targets for 2009-2012 that takes into account the reduction in programme budgets due to the Olympic budget shortfall.

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**Recommendation 16**

The investment strategy should include a detailed explanation of how the LDA investment methodology works, allowing all stakeholders to gain a clear understanding of how and why the LDA has chosen to prioritise its resources as it has. It should provide a clear understanding of how the LDA is choosing to prioritise and allocate its funding which can then be seen in action in the 2010/11 draft budget.



# Appendix 2 Orders and translations

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### Chinese

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### 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.

### 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.

### 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.

### 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।

### Hindi

यदि आपको इस दस्तावेज़ 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।

### Bengali

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

### 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۔

### Arabic

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

### Gujarati

જો તમારે આ દસ્તાવેજનો સાર તમારી ભાષામાં જોઈતો હોય તો ઉપર આપેલ નંબર પર ફોન કરો અથવા ઉપર આપેલ ટપાલ અથવા ઇ-મેઇલ 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.

**Greater London Authority**

City Hall

The Queen's Walk

More London

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