

## **Budget Committee's response to the Mayor of London's 'GLA Group Budget Proposals and Precepts 2007-08 Consultation Document'**

### **1. Introduction**

- 1.1 In December 2006 the Mayor issued his consultation draft budget for 2007/08, which provides for expenditure by the GLA Group (the Greater London Authority (GLA) and the four functional bodies (the Metropolitan Police Authority (MPA), the London Fire and Emergency Planning Authority (LFEPA), Transport for London (TfL) and the London Development Agency (LDA)).
- 1.2 In accordance with section 54 of the GLA Act 1999, the London Assembly has delegated authority to the Budget Committee to act as the consultee in respect of the consultation draft budget.
- 1.3 In his comments on the 2007/08 budget, the Mayor has highlighted various issues.
- There is to be no change in the council tax contribution for the 2012 Olympic and Paralympic Games.
  - The budget will provide increased resources for neighbourhood policing, security in London, the capital's transport system and tackling climate change.
  - The proposed maximum increase in the GLA council tax precept is 5.3 per cent or 29 pence per week /£15.26 per year for a Council Tax Band D household. However, to realise this increase, further budget reductions of £8 million need to be found.<sup>1</sup>
- 1.4 Our response reflects on some of these issues, and on our recent discussions with the Mayor, representatives of the functional bodies, and external stakeholders. It also relates to issues outlined in our pre-budget report.<sup>2</sup> We regret that we are unable to comment on performance issues because, at the time of writing, we were still awaiting an update on the performance matters highlighted in our pre-budget report.
- 1.5 Last year we commissioned external finance experts to contribute to our work on the budget. IPF Consultancy has provided a written analysis of annual budgets and performance for the GLA Group since 2001/02.<sup>3</sup> Bill Roots of SOLACE Enterprises has provided informal support in relation to the consultation draft budget. He will continue to work with us on the Mayor's draft capital spending plan for 2007/08.
- 1.6 Our response is divided into the following sections<sup>4</sup>:

| Section  |   | Page |
|----------|---|------|
| 2        | Some general comments on the consultation draft budget                      | 2    |
| 3        | MPA   | 4    |
| 4        | LFEPA   | 7    |
| 5        | GLA   | 8    |
| 6        | TfL   | 10   |
| 7        | LDA   | 13   |
| Appendix | The Budget Committee and its meetings between December 2006 to January 2007 | 15   |

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<sup>1</sup> Consultation draft budget 2007/08, pages 1- 2

<sup>2</sup> Budget Committee's pre-budget report is available at: <http://www.london.gov.uk/assembly/reports/budget/>

<sup>3</sup> IPF Consultancy's analysis is available at: <http://www.london.gov.uk/assembly/reports/budget/>

<sup>4</sup> The order of sections reflects the order of presentation in the consultation draft budget.

## **2. Some general comments on the consultation draft budget**

### Budget information

- 2.1 In our pre-budget report we asked for some basic information to be included in the consultation draft budget to be able to see clearly what Londoners are getting, and will get, from the Mayor's annual budgets.<sup>5</sup>
- 2.2 Some of this information has been included in the consultation draft budget. Our external finance experts have also commented that, since 2001/02, there have been noticeable improvements in the quality of GLA Group budget information. We would like to take this opportunity to thank staff across the GLA Group for providing this information and assisting us in our work.
- 2.3 Building on the improvements in budget information, we consider that there are aspects of the consultation draft budget where further changes could be made to promote transparency and aid understanding. In particular:
- The budget breakdowns for each member of the GLA Group could show clearly the split between revenue and capital budgets. At present the breakdowns provided for TfL and LDA make it difficult to see clearly operating costs and the impact of capital expenditure;
  - There could be a separate schedule setting out any new responsibilities that each member of the GLA Group is undertaking and the costs over the next three years. This could also indicate where a member of the GLA Group is taking on responsibilities previously undertaken by another member of the GLA Group and the associated costs; and
  - The options for budget reductions being considered to meet the proposed maximum council tax precept could be outlined, and budget consultees invited to offer their views on these options. London First told us it hoped the Mayor's budget consultation could be more open in the future, describing the current process as "going through the motions." London Civic Forum commented that the Mayor's budget consultation had developed, but could be improved by focusing on a few key issues in detail.<sup>6</sup>

### GLA Group expenditure on the 2012 Olympic and Paralympic Games

- 2.4 In our separate report on financing the Games<sup>7</sup>, we asked for the consultation draft budget to include full details of what each member of the GLA Group is spending on the Games, what this expenditure is providing for and how it is being funded.
- 2.5 The consultation draft budget includes a separate appendix on '2012 Games and legacy'<sup>8</sup> but this provides only some information. It does not explain specifically what London council taxpayers' contribution in 2007/08 of £57.7 million for the Games will fund. It does not include the numbers of GLA Group staff who are, or will, be working on the Games. Representatives of London Boroughs have told us that they want greater

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<sup>5</sup> Budget Committee's pre-budget report, November 2006, page 2. We asked for a detailed breakdown of all growth in expenditure for each member of the GLA Group, a detailed breakdown of all savings and efficiencies for each member of the GLA Group, specific budget deliverables for each member of the GLA Group and specific performance targets and outcomes for each budget deliverable.

<sup>6</sup> Budget Committee meeting on 11 January 2007

<sup>7</sup> Budget Committee's report on the Games is available at: <http://www.london.gov.uk/assembly/reports/budget/>

<sup>8</sup> Consultation draft budget 2007/08, page 58

clarification and transparency on the costs of the Games as there appeared to be “pockets of separate expenditure”. They have also suggested that the Games-related benefits for London Boroughs not hosting the Games are not yet apparent. In relation to realising benefits from the Games, the London Civic Forum commented on the need for all the organisations working on the Games to have a joint strategy to obtain better community engagement.<sup>9</sup>

- 2.6 The consultation draft budget does not make clear how future GLA Group expenditure on the Games will be funded. The MPA told us that, whilst government grant will cover estimated 2007/08 costs of £4 million for work on planning and preparing for the Games, grant for future costs, estimated at £9 million for 2008/09 and £23 million for 2009/10<sup>10</sup>, had not been secured.<sup>11</sup> Similarly funding from the Government for LFEPA’s proposed expenditure on the Games of £0.5 million in 2007/08 and £0.6 million in 2008/09 is not yet confirmed.<sup>12</sup>
- 2.7 We will continue to keep GLA Group expenditure on the Games under review. In our separate report on the Games, we requested regular updates on expenditure and funding of the Games.

#### Use of general reserves across the GLA Group

- 2.8 Our external finance experts have suggested that the levels of general reserves for some members of the GLA Group included in the consultation draft budget may be considered low.
- The MPA would have a general reserve and emergency contingency fund of 1.7 per cent of net budgeted expenditure.<sup>13</sup>
  - LFEPA would have general reserves of 2 per cent of its budget requirement by March 2009.<sup>14</sup>
  - TfL’s general reserves would represent approximately 2 per cent of its gross budget in 2009/10.<sup>15</sup> TfL told us it was different from the other functional bodies and that its level of general reserves was felt to be right based on the kind of shocks it might face.<sup>16</sup>
- 2.9 In the long term, using general reserves to fund budgets could be unsustainable and the levels of reserves for some members of the GLA Group may be too low. If restorations to general reserves were necessary, we would expect this to be achieved by savings rather than from an increased call on the council tax precept.
- 2.10 We questioned the functional bodies about their reserves, and all considered the position to be acceptable (we offer further comments on LFEPA’s position on reserves in section 4). We include this point on reserves for completeness rather than to make a specific recommendation.

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<sup>9</sup> Budget Committee meeting on 11 January 2007

<sup>10</sup> Consultation draft budget 2007/08, page 58

<sup>11</sup> Budget Committee meeting on 4 January 2007

<sup>12</sup> Budget Committee meeting on 4 January 2007

<sup>13</sup> Consultation draft budget 2007/08, page 10

<sup>14</sup> Consultation draft budget 2007/08, page 13

<sup>15</sup> Consultation draft budget 2007/08, page 28

<sup>16</sup> Budget Committee meeting on 4 January 2007

### 3. MPA

#### Budget process

- 3.1 The MPA has told us of changes to its budget process this year, which we welcome. In addition to the usual formal MPA committee meetings to discuss the draft budget, a small group of MPA Members considered the indicative Metropolitan Police Service (MPS) budget plans separately, and held a series of scrutiny reviews. The MPA suggested its budget process was now a bit like the practice adopted by local authorities.<sup>17</sup>
- 3.2 We hope the changes will lead to noticeable improvements in the future especially as there is clearly a widespread perception that the MPA budget could immediately yield greater efficiency savings.<sup>18</sup> Future improvements could lead to more certainty in three-year planning forecasts, earlier identification of budget shortfalls and greater transparency on expenditure.

#### Centrally held budgets

- 3.3 One improvement to the MPA budget that would promote transparency is the removal of “centrally held budgets”. These amount to £130.9 million in 2007/08, £215.3 million in 2008/09 and £310.4 million in 2009/10. They represent budgets that the MPA will not attribute to business groups until later in its budget setting process (covering inflation, pay awards and other such budget changes).<sup>19</sup>
- 3.4 We consider that it should be possible, as it is for other members of the GLA Group and as is normal in local authorities, for the MPA to allocate all resources at this stage. Whilst the practice of having “centrally held budgets” remains, other proposed MPA budgets are potentially misleading – they could change when the amount in “centrally held budgets” is eventually allocated. This is not the first time we have commented on this issue. We also made similar points in respect of the 2005/06 and 2004/05 consultation draft budgets for the MPA.<sup>20</sup>

#### Growth in the draft MPA budget for counter-terrorism

- 3.5 The consultation draft budget for the MPA includes committed growth of £23 million for additional dedicated security posts in 2007/08.<sup>21</sup>
- 3.6 As we have stated previously<sup>22</sup>, we consider that counter-terrorism for the capital is a national priority and should be funded by the Government. The Mayor has also expressed this view and reported that he “continues to press this point.”<sup>23</sup> However, to date, little progress appears to have been made in securing additional resources. The extra £23 million for additional dedicated security represents a further £7.98 at Council

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<sup>17</sup> Budget Committee meeting on 4 January 2007

<sup>18</sup> At the Budget Committee meeting on 11 January 2007, some external stakeholders expressed views that the MPA could provide further budget reductions

<sup>19</sup> Consultation draft budget 2007/08, page 9

<sup>20</sup> See Budget Committee’s response to Mayor’s consultation draft budget 2005/06, January 2005, page 15 and Budget Committee’s response to Mayor’s consultation draft budget 2004/05, page 23

<sup>21</sup> Consultation draft budget 2007/08, page 48

<sup>22</sup> Response to Mayor’s consultation draft budget 2006/07, January 2006, page 2

<sup>23</sup> Consultation draft budget 2007/08, page 1

Tax Band D, although savings and efficiencies and use of reserves will mitigate the actual impact on council taxpayers.<sup>24</sup> We hope that the Mayor will, in the future, make progress in securing government funding for counter-terrorism. We would also welcome more information on the total expenditure on, and government funding for, counter-terrorism over recent years in order to have greater clarity on this issue.

- 3.7 Representatives of the London Boroughs, the London business community and the London Civic Forum have expressed support for securing more government funding for counter-terrorism. Representatives of London Boroughs also commented that the focus of counter-terrorism resources in central London might increase the potential for softer terrorist targets in outer London. They suggested there needed to be a greater role for London Boroughs in, and a public debate on, counter-terrorism work and funding.<sup>25</sup>

#### Growth in the draft MPA budget for neighbourhood policing

- 3.8 The consultation draft budget for the MPA includes committed growth of £44 million to fund the full year cost of neighbourhood policing in 2007/08.<sup>26</sup>
- 3.9 We are supportive of Safer Neighbourhood Teams and will shortly issue our separate report on this topic. However, in the past, London Borough representatives have suggested to us that asking London council taxpayers to continue to fund neighbourhood policing each year may not be sustainable in the long term.<sup>27</sup> We are keen to ensure efforts are being made to identify any opportunities for alternative sources of funding for Safer Neighbourhood Teams including the redirection of existing MPA resources.

#### Growth in the draft MPA budget for a programme of modernisation

- 3.10 The consultation draft budget for the MPA includes new growth for the “investment Board Fund – Met Modernisation Programme” of £15 million in 2007/08, £25 million in 2008/09 and £35 million in 2009/10.<sup>28</sup> This provides for taking “forward a programme of modernisation to assist in delivering key change in support of strategic priorities and improve capability across the police service.”<sup>29</sup>
- 3.11 We are keen to understand the specific outcomes of this expenditure and, in particular, any financial benefits that will arise in the long term. Representatives of London Boroughs told us that they saw the programme as an opportunity to deliver modern working practices to improve the MPS and its use of resources. Representatives of London’s business community suggested there was a need to ensure the programme had clear objectives and milestones.<sup>30</sup> We have requested further information on the modernisation programme.

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<sup>24</sup> Consultation draft budget 2007/08, page 34

<sup>25</sup> Budget Committee meeting on 11 January 2007

<sup>26</sup> Consultation draft budget 2007/08, page 1

<sup>27</sup> Transcript of Budget Committee meeting on 5 January 2006, page 22

<sup>28</sup> Consultation draft budget 2007/08, page 49

<sup>29</sup> Consultation draft budget 2007/08, page 10

<sup>30</sup> Budget Committee meeting on 11 January 2007

### Savings and efficiencies in the draft MPA budget

3.12 The consultation draft budget provides for the MPA to realise £82.4 million of savings and efficiencies in 2007/08.<sup>31</sup>

3.13 In light of recent performance, we are keen to see that these proposed savings and efficiencies are achieved. Information supplied to us previously suggests that in 2005/06 the MPA fell short of its savings target.<sup>32</sup> At the end of quarter 1 2006/07 the MPA also forecast to fall short of its current annual savings target (£68.3 million) by £12 million (18 per cent).<sup>33</sup> We welcome MPA assurances that all proposed savings and efficiencies, including proposed annual corporate efficiency savings of £5 million for 2007/08, 2008/09 and 2009/10, have been “double-checked and triple-checked” for achievability.<sup>34</sup> We have requested further information from the MPA on recent performance against target on savings and efficiencies.

### Further budget reductions

3.14 The consultation draft budget provides for an increase in MPA net revenue expenditure of 3.9 per cent, which exceeds the Mayor’s target of an increase of 3 per cent.<sup>35</sup> The Mayor has reported seeking a lower budget requirement from the MPA prior to publishing the consultation draft budget but that “due to the scale of the additional work the MPS is now involved in, the MPA has advised that so far it has not been possible to secure a lower target.”<sup>36</sup>

3.15 In light of its annual gross expenditure totalling over £3 billion, we consider that the MPA should be able to contribute towards the Mayor’s target of further budget reductions of £8 million. Representatives of London Boroughs and the capital’s business community suggested reductions could be sought in the MPA budget, specifically in the police officer overtime budget and the “centrally held budgets”.<sup>37</sup> The MPA told us that it expected to contribute towards the Mayor’s target.<sup>38</sup>

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<sup>31</sup> Consultation draft budget 2007/08, page 49

<sup>32</sup> In a report to the Budget Monitoring Sub-Committee meeting on 26 July 2006 on functional bodies quarterly budget and performance, the 2005/06 target for total savings for MPA was given as £73 million and the level achieved at the end of quarter 4 2005/06 was given as £67.4 million.

<sup>33</sup> Report to Budget Monitoring Sub-Committee meeting on 12 October 2006, Functional bodies quarterly budget and performance

<sup>34</sup> Budget Committee meeting on 4 January 2007

<sup>35</sup> Mayor’s Budget Guidance 2007/08, page 6

<sup>36</sup> Consultation draft budget 2007/08, page 4

<sup>37</sup> Budget Committee meeting on 11 January 2007

<sup>38</sup> Budget Committee meeting on 4 January 2007

## 4. LFEPA

### Budget process

- 4.1 We are impressed with the approach taken by LFEPA in preparing its budget. LFEPA told us work was steered by its Finance Committee, supplemented by separate budget review meetings. The budget was considered from various perspectives including bids for growth, underspends, overspends, on a thematic basis, and line by line.<sup>39</sup>

### Growth in the draft LFEPA budget for London Resilience

- 4.2 The consultation draft budget includes additional expenditure by LFEPA of £6 million for London Resilience in 2007/08.<sup>40</sup>
- 4.3 We recognise that funding this growth, alongside existing services, is the main budget issue for LFEPA. The consultation draft budget provides for LFEPA to support its 2007/08 budget by a considerable amount of reserves of £24.5 million (£5.9 million from earmarked reserves and £18.6 million from General reserves).<sup>41</sup> In the long term such a use of reserves may be unsustainable.
- 4.4 We believe that, as with the MPA's counter-terrorism work, the Government should fund LFEPA's London Resilience costs. It should not be borne by council taxpayers. The consultation draft budget sets out that the additional £6 million equates to an extra £2.08 at Council Tax Band D, although savings and efficiencies and use of reserves will mitigate the actual impact on council taxpayers.<sup>42</sup>
- 4.5 We hope that, in the future, LFEPA can move away from a budget less reliant on the use of reserves. The Mayor has reported that if no Government funding for London Resilience was made available, he would like GLA and LFEPA officers to "work together to examine the scope for using reserves to smooth future increases."<sup>43</sup>

### Savings and efficiencies in the draft LFEPA budget

- 4.6 The consultation draft budget includes £10.8 million of savings and efficiencies for LFEPA.<sup>44</sup>
- 4.7 LFEPA has told us that, although it commissioned PricewaterhouseCoopers (PwC) to help identify any new areas that could be targeted for savings this year, no new areas have been identified.<sup>45</sup>

### Further budget reductions

- 4.8 We are aware that LFEPA would find it difficult to contribute further budget reductions. In fact LFEPA told us that it could not offer any reductions without making service cuts or holding back on its provision of London Resilience.<sup>46</sup>

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<sup>39</sup> Budget Committee meeting on 4 January 2007

<sup>40</sup> Consultation draft budget 2007/08, pages 1, 34

<sup>41</sup> Consultation draft budget 2007/08, page 13

<sup>42</sup> Consultation draft budget 2007/08, page 34

<sup>43</sup> Letter from the Mayor to Valerie Shawcross, Chair of LFEPA, 7 November 2006

<sup>44</sup> Consultation draft budget 2007/08, page 12

<sup>45</sup> Budget Committee meeting on 4 January 2007

<sup>46</sup> Budget Committee meeting on 4 January 2007

## 5. GLA

### Growth in the draft GLA budget for extra staff

- 5.1 The consultation draft budget provides for a 3.2 per cent increase in GLA net revenue expenditure in 2007/08, which exceeds the Mayor's own target of 3 per cent.<sup>47</sup> The increase is around 6 per cent, if the amount to be collected from council taxpayers to fund the Games, which will be passed on to the Olympic Delivery Authority, is excluded from the figures.
- 5.2 The bulk of the proposed growth in the draft GLA budget will fund a net increase of 41.1 posts in 2007/08.<sup>48</sup> This is a significant increase in staff that will add pressures to accommodation at City Hall and should be re-examined. The Mayor told us that no additional accommodation costs are to be incurred and all the additional staff are to be located within existing properties that are already rented by the GLA, the LDA or TfL.<sup>49</sup> We also note there is an intention to fund 7.5 of the proposed posts, which relate to providing support for charging for pre-planning application services, from income from charges.<sup>50</sup>
- 5.3 A total of 13 of the proposed posts relate to the extension of Mayoral powers and are to be kept under review during the passage of the GLA Bill.<sup>51</sup> We are keen to ensure additional government funding and resources, as appropriate, cover extra costs arising from any additional mayoral powers. The Mayor has told us that he is expecting to receive extra staff from the Government but has made clear that he does not want to be "dumped with people that the Government has been trying to get rid of for years."<sup>52</sup>

### Savings and efficiencies in the draft GLA budget

- 5.4 It is disappointing that the consultation draft budget provides for only £200,000 of additional savings and efficiencies for the GLA in 2007/08.<sup>53</sup> The 2006/07 budget for the GLA included more than three times this level of savings and efficiencies (£800,000)<sup>54</sup>, although we recognise a small organisation might not be able to continue to make large amounts of savings year-on-year.
- 5.5 It is reported that the GLA's approach to partnership working is resource intensive and efficiencies to be gained are generally realised by organisations other than the GLA.<sup>55</sup> If this is the case, we would welcome receiving details of specific examples including any savings secured by functional bodies as a result of the GLA's work.

### GLA Group integration

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<sup>47</sup> Mayor's 2007/08 Budget Guidance, page 6

<sup>48</sup> Consultation draft budget 2007/08, page 52

<sup>49</sup> Budget Committee meeting on 20 December 2006

<sup>50</sup> Report to Budget Committee on 22 November 2006, Draft GLA Corporate Plan 2007-10, Annex B, page 22

<sup>51</sup> Consultation draft budget 2007/08, page 52

<sup>52</sup> Budget Committee meeting on 20 December 2006

<sup>53</sup> Consultation draft budget 2007/08, page 17

<sup>54</sup> GLA Consolidated budget 2006/07, page 8

<sup>55</sup> Consultation draft budget 2007/08, page 18



5.6 In 2005 the Mayor told us that he thought it would be a very good time over 2006/07 to look at building into the budget real savings from economies of scale across the GLA Group.<sup>56</sup>

5.7 Recently the Mayor told us that, on GLA Group integration, progress had been painfully slow. There had been an initial saving from promoting the Head of Law at the GLA to Head of Law at TfL. Further substantial changes to TfL staffing were anticipated after the departure of the current Managing Director – Finance & Planning. The Mayor commented that there was a chance, over the next year, of looking for savings across TfL, the GLA and the LDA in terms of the media and Human Resources functions, although these savings would not necessarily be available immediately but as and when there were changes in staffing.<sup>57</sup>

5.8 We are keen to identify the tangible benefits arising from greater GLA Group integration, including any savings (both cashable and non-cashable). The Executive Director of Finance & Performance, GLA has told us that work is taking place across the GLA Group on how to capture benefits and identify both the cash savings and the reduced cost or cash efficiencies.<sup>58</sup> We welcome this work and hope to receive further details in due course.

#### Further budget reductions

5.9 We consider there might be scope for the GLA to contribute to the Mayor's target of further budget reductions of £8 million. For example, further refinement of GLA programme budgets might be possible in light of recent carry forwards. In 2004/05, £812,000 from GLA programme budgets was carried forward.<sup>59</sup> In 2005/06, £405,000 from GLA programme budgets was carried forward.<sup>60</sup>

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<sup>56</sup> Transcript of Budget Committee meeting on 15 December 2005, page 18

<sup>57</sup> Budget Committee meeting on 20 December 2006

<sup>58</sup> Budget Committee meeting on 20 December 2006

<sup>59</sup> Report to Budget Monitoring Sub-Committee meeting on 7 July 2005, GLA Budget and Performance 2004/05, Appendix C

<sup>60</sup> Report to Budget Monitoring Sub-Committee meeting on 26 July 2006, GLA Budget and Performance monitoring 2005/06, Appendix D1

## 6. TfL

### Budget process

- 6.1 We were pleased to hear from TfL about its comprehensive approach to budget setting. It sets guidelines and financial targets for each business unit in the context of having to have a financially balanced business plan (income has to exceed expenditure in order to underpin TfL's credit rating) and any new developments. Business units report in July and then there are further one to one meetings and an away day on the budget.<sup>61</sup>
- 6.2 Nevertheless, there are some aspects of TfL's budget that could be changed to improve its transparency.
- As set out at paragraph 2.3 of this response, there could be a clear split between TfL's revenue and capital expenditure in order to see the operating costs clearly and the impact of capital expenditure.
  - TfL could prepare its budget and business plan on a common, rolling three-year basis (five years for capital expenditure). Whilst we recognise that the Government funds a considerable part of TfL's budget via grant, and this is only certain up to 2009/10, we do not think this precludes TfL from adopting the usual budgeting and business planning practice of public sector organisations.

### Income from Tube and bus fares

- 6.3 The consultation draft budget shows a 7.2 per cent increase in TfL's traffic income in 2007/08, reflecting the fares package introduced by the Mayor in January 2007.<sup>62</sup> Oyster card fares on the Tube and buses have remained the same as in 2006 and cash fares have increased. A single zone 1 cash fare on the Tube has risen from £3 to £4. A single bus cash fare has risen from £1.50 to £2.
- 6.4 The Mayor has reported that fares have been increased in order to pay for £2.9 billion of investment in improving the transport system. He has said that every penny of the fare increases is going to improve the existing network.<sup>63</sup> We are keen to make sure this is the case and that Londoners can see the benefits from their investment. The London Chamber of Commerce & Industry told us that two-thirds of its members had not seen the benefits of increased investment in the transport system. London First told us of concerns about the poor performance of the Tube. Representatives of London Boroughs commented that, in their view, the quality of the public's transport experience was not improving at a rate that off set the increases in fares.<sup>64</sup>
- 6.5 We want to ensure that all Londoners can take advantage of lower priced fares available on Oyster card. The London Civic Forum told us of its members' concerns about the disparity between cash and Oyster card fares, that not everyone is able to pre-pay for travel, and that there were a limited number of places from which you could purchase Oyster cards, particularly in south London where the Tube did not run.<sup>65</sup> The Mayor has told us that a package of initiatives would be introduced in March 2007 to encourage those not using Oyster card to take it up.<sup>66</sup>

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<sup>61</sup> Budget Committee meeting on 4 January 2007

<sup>62</sup> Consultation draft budget 2007/08, page 24

<sup>63</sup> Mayor's press conference, 9 January 2007

<sup>64</sup> Budget Committee meeting on 11 January 2007

<sup>65</sup> Budget Committee meeting on 11 January 2007

<sup>66</sup> Budget Committee meeting on 4 January 2007

- 6.6 It has been highlighted to us that London council taxpayers are also paying for the Mayor's fares policy through the concessionary fares scheme. Although London Boroughs fund the scheme (using council taxpayers' money), it is based on the level of fares, plus Tube and bus usage, so it is affected by the Mayor's annual fare decisions, including fare increases.<sup>67</sup>

#### Income from Congestion Charging Scheme

- 6.7 The consultation draft budget shows a 3.2 per cent increase in TfL's congestion charging income in 2007/08,<sup>68</sup> reflecting, in part, the western extension of the existing congestion charging zone.
- 6.8 We are keen to understand the impact of the congestion charging scheme on TfL's overall budget. We have requested further information on the profit made from the congestion charging scheme for each year it has operated, and the number of residents receiving a residents' discount and the associated loss of income.

#### Savings and efficiencies in the draft TfL budget

- 6.9 The consultation draft budget provides for TfL to find total annual efficiencies of £217 million by 2007/08.<sup>69</sup> This contributes to TfL's overall target to save almost £1.3 billion (cumulative) by the end of 2009/10.<sup>70</sup>
- 6.10 TfL has told us that it is becoming progressively more difficult to find savings. It reported that some savings in the consultation draft budget, including £73 million from procurement and £5 million from additional stretch efficiencies<sup>71</sup>, had not yet been identified fully. We support on-going work to secure these savings and efficiencies and were pleased to hear that TfL will be undertaking a close "bottom up look" to identify further savings and efficiencies next year.<sup>72</sup>

#### Funding from the council tax precept

- 6.11 The consultation draft budget provides for TfL to make a call of £12 million on the council tax precept in 2007/08.<sup>73</sup>
- 6.12 In the context of Londoners already contributing to TfL's budget through Tube and bus fares and the congestion charge, it can be difficult to justify this call. In our pre-budget report, we highlighted some apparent buoyancy in TfL's budget, with income above budget, and operating expenditure below budget, in recent years.<sup>74</sup>
- 6.13 TfL has told us, as it has in previous years, that it needs to make a call on the council tax precept in order to secure its VAT exempt status. The minimum amount it requires from the council tax precept is £5 million.<sup>75</sup>

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<sup>67</sup> Budget Committee on 11 January 2007

<sup>68</sup> Consultation draft budget 2007/08, page 24

<sup>69</sup> Consultation draft budget 2007/08, page 55

<sup>70</sup> Consultation draft budget 2007/08, page 26

<sup>71</sup> Consultation draft budget 2007/08, page 55

<sup>72</sup> Budget Committee meeting on 4 January 2007

<sup>73</sup> Consultation draft budget 2007/08, page 24

<sup>74</sup> Budget Committee's pre-budget report, November 2006, page 11

<sup>75</sup> Budget Committee meeting on 4 January 2007

### Further budget reductions

- 6.14 The Mayor has indicated that TfL might contribute to his target of further budget reductions of £8 million. He told us that there was a possibility of TfL paying for more policing functions.<sup>76</sup>
- 6.15 TfL told us that it was participating in GLA Group discussions on further budget reductions but it had, unlike the MPA, already submitted a draft budget in accordance with the Mayor's Budget Guidance. It was also already providing £7.5 million to the MPA for extra Police and Community Support Officers on the transport system.<sup>77</sup>

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<sup>76</sup> Budget Committee meeting on 20 December 2006

<sup>77</sup> Budget Committee meeting on 4 January 2007

## 7. LDA

### Budget process

7.1 The LDA has provided us with some information on its budget process, which started in early 2006 with a series of LDA Board workshops. However, there were considerable changes in the LDA senior management team during the course of last year, with five new LDA Group directors appointed between September to October 2006. We look forward to the new senior management team developing the LDA's budget process in the future.

7.2 The LDA has told us that in setting its budget it faces a number of challenges.

- It has to meet a large number of expectations within a budget of around £700 million for projects and £30 million for policy and programme support (its administration budget).
- Its annual level of Government grant is not yet secured. Whilst its 2007/08 grant forecast is based on the Government's last Comprehensive Spending Review and, therefore, more certain, the forecast grant levels for 2008/09 and 2009/10 are based on regional funding allocations notified in 2005. They are subject to change in light of the Comprehensive Spending Review 2007.<sup>78</sup>
- It is taking over responsibilities from the Government Office for London for European programme responsibilities but has yet to secure funding for this work.<sup>79</sup>

7.3 As we have often highlighted in the past, we consider that there are various aspects of the LDA's budget that could be changed to improve its transparency.

- Each year the LDA appears to balance its budgets perfectly. It has told us that this is because it is funded on a cash basis by the Department for Trade & Industry (DTI) and draws down the money it requires month by month. This makes understanding actual expenditure and performance almost impossible for consultees. We consider more could be done to make clear when projects in individual programme areas are not progressing in accordance with the original plan and budget.
- As set out at paragraph 2.3 of this response, there could be a clear split between the LDA's revenue and capital expenditure in order to see the operating costs clearly and the impact of capital expenditure.

### Balancing the budget priorities of the Mayor and the Department for Trade & Industry

7.4 We recognise that one particular budget difficulty for the LDA is having to address both the Mayor's budget priorities and those set by the DTI.

7.5 The LDA has highlighted to us the tension this can cause with the example of skills development. Whilst the LDA considers there is a need to focus on basic skills in London, the DTI is asking it to concentrate on higher skills.<sup>80</sup> We are aware that the Government is currently considering taking the LDA out of its target framework for all Regional Development Agencies and allowing the Mayor to set all the LDA's output targets.<sup>81</sup> If the Mayor assumes control of setting targets for the LDA, we are keen to receive information, at the earliest opportunity, on how this impacts on the LDA's budget and priorities.

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<sup>78</sup> Consultation draft budget 2007/08, page 30 and Budget Committee meeting on 4 January 2007

<sup>79</sup> Budget Committee meeting on 4 January 2007

<sup>80</sup> Budget Committee meeting on 4 January 2007

<sup>81</sup> Consultation draft budget 2007/08, page 29

## Growth in the draft LDA budget for the 2012 Olympic and Paralympic Games

- 7.6 The consultation draft budget provides for the LDA's expenditure on the 2012 Olympic and Paralympic Games to increase from £222 million in 2006/07 to £441 million in 2007/08. Alongside this growth, there is less provision in 2007/08 for various LDA programme budgets including "developing London's Areas and Sectors"; "diversity works plus and specialist equalities projects"; and "marketing & promoting London."<sup>82</sup>
- 7.7 We remain concerned about the impact of the Games on the LDA's budget and non-Games related work. The LDA has told us that it will not be cutting any projects because of the Games. It will also realise its aim not to spend more than 25 per cent of its total budget on the Games because prudential borrowing will cover its Games-related costs.<sup>83</sup>
- 7.8 In 2005/06 the LDA spent less than originally planned on 11 of its 16 non-Games-related programme budgets because of its expenditure on the Games.<sup>84</sup> Previously London boroughs have told us of a concern that many LDA projects that might have gone ahead are not going to because money has gone, or is going to go, towards the Games.<sup>85</sup> We consider that, if this is not the case, more could be done to demonstrate that the LDA is continuing to work, and spend money, across all parts of London rather than just focusing on east London where the Games will be held.

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<sup>82</sup> Consultation draft budget 2007/08, page 31

<sup>83</sup> Budget Committee meeting on 4 January 2007

<sup>84</sup> Report to Budget Monitoring Sub-Committee meeting on 26 July 2006, Functional bodies quarterly budget and performance, Appendix D

<sup>85</sup> Transcript of Budget Committee meeting on 5 January 2006, page 16

## **Appendix 1: The Budget Committee and its meetings between December 2006 to January 2007**

Members of the Budget Committee are: Sally Hamwee – Chair (Liberal Democrat), Andrew Pelling – Deputy Chair (Conservative), Tony Arbour (Conservative), John Biggs (Labour), Bob Blackman (Conservative), Pete Hulme Cross (One London), Jenny Jones (Green), Joanne McCartney (Labour), and Mike Tuffrey (Liberal Democrat).

The main items considered at meetings and those who attended are listed below. Agendas, and minutes are available at: [www.london.gov.uk/assembly/budgmtgs/index.jsp](http://www.london.gov.uk/assembly/budgmtgs/index.jsp)

### **20 December 2006: Budget Committee**

Consultation draft budget 2007/08 – discussion with the Mayor

- Ken Livingstone, Mayor of London;
- Anne McMeel, Executive Director of Finance & Performance, GLA; and
- Martin Clarke, Head of Strategic Finance & Performance, GLA.

### **4 January 2007: Budget Committee**

Consultation draft budget 2007/08 – discussion with Functional Bodies

- Len Duvall AM, Chair of the MPA, Paul Stephenson, Deputy Commissioner, MPS, Sharon Burd, Acting Director of Resources, MPS and Ken Hunt, Treasurer, MPA;
- Stephen Critchley, Chief Finance Officer, TfL;
- Valerie Shawcross AM, Chair, Sir Ken Knight, Commissioner for Fire and Emergency Planning, Barbara Riddell, Director of Resources and Ray Jennings, Deputy Head of Finance, LFEPA; and
- Sarah Ebanja, Group Director – Strategy, Equalities and Performance, and Jonathan Kalemera, Director of Finance, LDA.

Anne McMeel, Executive Director of Finance & Performance, GLA was also present.

### **11 January 2007: Budget Committee**

Consultation draft budget 2007/08 – discussion with external stakeholders

- Councillor Ian Clement (Conservative), Leader of the London Borough of Bexley and Executive Member for Crime and Public Protection, London Councils;
- Councillor Derek Osbourne (Liberal Democrat), Leader of the Royal Borough of Kingston Upon Thames and Member of the London Councils Leaders' Committee;
- Irving Yass, Director of Policy, London First;
- Dr Helen Hill, Head of Press & Public Affairs, London Chamber of Commerce and Industry; and
- Kate Monkhouse, Director, and Miriam Haywood, VCS 2012 Project Coordinator, London Civic Forum.

Anne McMeel, Executive Director of Finance & Performance, GLA was also present.