London Assembly Budget and Performance Committee – 3 January 2018

Transcript of Item 6 – The 2018-19 GLA Group Budget (LLDC)

Gareth Bacon AM (Chairman): Good morning, everybody. Happy new year. This is the first meeting, part one of this year's Budget and Performance "extravaganza", the first of five meetings to consider the Mayor's budget over the next week or so.

Item 6, the draft Greater London Authority (GLA) budget for 2018/19, is split into two sections. First, we have the London Legacy Development Corporation (LLDC) and a bit later on today we will have Transport for London (TfL).

Can I welcome our guests? They are very familiar to all of us: Martin Clarke, the Executive Director of Resources here at the GLA, Gerry Murphy, the Acting Chief Executive of the LLDC, Sir Peter Hendy CBE, the Chair of the LLDC, and David Gallie, the Assistant Director of Group Finance at the GLA. Welcome to all of you.

The first questions, as usual, are the usual scene-setting questions, which, following my predecessor's principle, I will take myself. The first question is to you, Mr Clarke, which relates to the LLDC's funding and how much it is going to cost the GLA in 2018/19.

Martin Clarke (Executive Director of Resources, Greater London Authority): You can see from the budget consultation paper that the LLDC revenue budget proposals are balanced for the next three years, but then there is a shortfall, still savings to be found, in the four-year plan and so the budget consultation shows the budget balanced in the medium term with a challenge in year four.

The big issue with the LLDC is the level of capital funding, which we have discussed last either at this Committee or at the Budget Monitoring Sub-Committee: how can the GLA continue to afford to lend the LLDC the sums required to meet its capital spending plans? We did say we had been working together - Gerry [Murphy], colleagues and I - for the last few months to get the capital funding on what I would call a sustainable basis. In the Mayor's budget consultation document on page 48, we explain the new requirement for local authorities including the GLA and the functional bodies to introduce a capital strategy, which is in effect its response to the concern in some quarters that local authorities are embarking on risky, unsustainable capital programmes.

We set out in the consultation budget on page 48 and particularly in paragraphs 9.3 to 9.6 how we have approached it for the LLDC because, to date, as I say, the plan has always been that there would be enough receipts generated in the Park to repay the borrowing, but with the uncertainties around future house price inflation and tender price inflation, that affects the forecast, we have critically reviewed that and, if we did not change our approach, the LLDC's long-term plans to 2022/23 will have required £822 million of borrowing and that exceeds the forecast receipts for that period.

Therefore, after analysing what we think is sustainable, we are proposing to cap the maximum borrowing to the LLDC at £520 million. That is approximately £70 million below what they expect to spend over that period, and the shortfall will come from two sources. The shortfall of that £70 million will come from the GLA's direct grant funding, and we have repurposed a provision, we had set aside money to repay debt to grant aid. Those sums of money are set out in paragraph 9.6. We can set aside £19.5 million in this current year and then reducing sums between £11 million and £12 million over the coming years. That will fund the gap.

Then, where the LLDC had plans to borrow to undertake the joint ventures, the GLA is going to be the party to the joint ventures. Instead of the GLA giving funding to the LLDC to be the joint venture partner, the GLA, through its GLA Land and Property (GLAP) company, which is generating capital receipts, will become the partner. Therefore, in essence, we are using the flexibilities and opportunities that the GLA has to direct funds or take more directly the risk, which would ultimately fall to the GLA if things go badly, via the GLAP.

Gareth Bacon AM (Chairman): Thank you for that. Much of what you have said we are going to cover in more detail in later parts of the meeting. The continued call on the GLA to prop up the LLDC does have an opportunity cost, does it not?

Martin Clarke (Executive Director of Resources, Greater London Authority): It does. If we were not lending the LLDC the resources, in the absence of any other expenditure plans, they would be invested on the market. That money is not being invested on the market and so there is an opportunity cost of the interest foregone. However, the rates we earn on putting our surplus money out on the market are very low, less than 1%, *circa* 0.5%, and so I am estimating that the opportunity cost is about £2.5 million a year. In taking forward this new requirement of a capital strategy, we will set out what the opportunity cost or the cost of income foregone is. Yes, that is like the additional revenue support annual costs that the GLA putting in.

Gareth Bacon AM (Chairman): How confident are you that the revenue budget that you mentioned in paragraph 9.6 in the Mayor's draft budget, that those numbers will be hit and will be accurate stretching off into the future?

Martin Clarke (Executive Director of Resources, Greater London Authority): Those numbers are existing numbers in our long-term plan. A very prudent decision was taken by the previous mayoral team to start to set aside money in case these issues would arise and so they have always been baked into the GLA's plans. Therefore, with the GLA budget balanced, I am confident that that resource is available.

Gareth Bacon AM (Chairman): What I meant was: are you confident that there will not be any further request for money on top of that, going off into the future years?

Martin Clarke (Executive Director of Resources, Greater London Authority): It is clearly a risk because the level of receipts that the LLDC generates in future will depend on future decisions. Future contract prices and tender prices will depend on, as I say, what future house price inflation is because that will affect the receipts, but we have built in a level of tolerance. Over the four-year plan period - talking to Gerry [Murphy] - a 1% variation would affect the amounts by £2 million or so, but if you looked over a 20, 30 or 40-year period, the level of risk could get into the tens of millions. That is why we will have to keep coming back each year, reviewing the forecast and responding if they ever move adversely. However, there is, at the moment, in the forecasts, a range of outcomes and, at the moment, as I was saying, based on the expert advice we have had, with the foreseeable range over the next four or five years, we can definitely cope.

Leonie Cooper AM: I would just like to come back to the issue about the interest because you were talking about a loss of interest of £2.5 million at current incredibly low - historically low - levels of interest. Surely the mood music from the Bank of England and the Monetary Policy Committee (MPC) is that interest rates are going to start going up, in which case I would have thought the opportunity cost could be twice that, if not more, and so we could be looking at a much higher level of loss of interest to the GLA. In the current context of overall reduction in grant and uncertainty about business rates, is this really acceptable?

Martin Clarke (Executive Director of Resources, Greater London Authority): The opportunity cost will increase if interest rates increase; that is a function of the arithmetic. At the moment, there is no authoritative medium-term forecast that shows interest rates are going to move dramatically. Yes, they are going to edge up, but we are talking about when rates go up by 0.25% or 0.5%. This is something we will need to set out in a capital strategy and review each year and be very transparent about what the additional cost is to the GLA.

However - and my LLDC colleagues here might want to say more - on the other side, you have the huge benefits that you are getting from that investment. At previous meetings, we have explained all of the economic benefits and the (business) case. Something that I do not think we have talked about is that we have been modelling what we think will be the levels of council tax and business rates in the Olympic Park area as it gets developed out. Come the 2030s, our estimates for those sources will be over £200 million a year.

Therefore, yes, there might be some increase on the cost side, but there are also very big benefits that do not flow through the LLDC budget and accounts but will flow through to London. Business rates and council tax will be shared by the GLA, by the boroughs and by the host boroughs. Quite significant sums are going to flow from the investment that we are making. Therefore, I actually do see this as an investment.

Gareth Bacon AM (Chairman): I think the disquiet that some Members have - and to a degree one might say that it is reasonable here - is that it is always jam tomorrow with the LLDC. Of course, it will be because it takes time to build these things and we understand that, but we are in a situation now where other areas of the GLA family are not plentiful with cash - I am thinking about the emergency services particularly - and the Mayor is proposing to put council tax up this year by the highest amount for a decade in order to plug some of those gaps. At the same time, there is lots and lots of money going into the LLDC that could be going elsewhere. I think that is why Members are slightly disquieted. We have had many meetings now where we have discussed the LLDC and it is constantly taking cash from the GLA that could otherwise be going elsewhere. Therefore, I take your point: in 2030 it might be that there is quite a lot of money flowing in the opposite direction, but that is some distance away from where we are at the moment.

Martin Clarke (Executive Director of Resources, Greater London Authority): I understand the comments. David [Gallie] will correct me if I am wrong, but we are not constraining the borrowing plans to any of the other functional bodies. Yes, you could say that the LLDC cannot have investment and at current rates we will have about £2 million to £2.5 million we could put into a functional body. I do not disagree, but this capital spending is not constraining the budgets for the other functional bodies and it would not eliminate the need for a council tax rise under the current plans.

Gareth Bacon AM (Chairman): Yes, that is largely true, albeit there are some smaller items that the Mayor is proposing to pay for as part of his council tax rise that he otherwise would not have to, but that is fine. We will mark that point.

Keith Prince AM: I just wanted to come back to Leonie's [Cooper AM] point around opportunity costs. You were saying that, when we lend, we get - did you say - 0.5%?

Martin Clarke (Executive Director of Resources, Greater London Authority): When we lend, rates are going to vary between 0.5% and 0.7% at the moment.

Keith Prince AM: The lost interest, then, you said, was approximately what?

Martin Clarke (Executive Director of Resources, Greater London Authority): Approximately £2.5 million. My simple arithmetic is, if you have borrowing of --

Keith Prince AM: Just a figure is fine.

Martin Clarke (Executive Director of Resources, Greater London Authority): -- £500 million, 1% is £5 million and therefore 0.5% is £2.5 million. It is somewhere between £2 million and £3 million. That is the opportunity cost. What I am saying is, when we have to meet this requirement to do the capital strategy, we will be very transparent about what it is. We will work it out on the actual rates that we are forecasting for the year.

Keith Prince AM: When we borrow money, what interest rate do we pay?

Martin Clarke (Executive Director of Resources, Greater London Authority): The only borrowing we are doing at the moment is in respect of -- Crossrail is now fully funded and the Northern line extension (NLE) and 50-year money is -- it does vary. It is around about the 3% mark. I think the latest was two point --

Keith Prince AM: I would put it to you, then, that the actual opportunity cost is not the loss of interest but the cost of borrowing because, if we did not lend that money and not receive the interest, we could use that to bring down our borrowing rates. £2 million you said the figure was. You are, therefore, looking at more like £12 million.

Martin Clarke (Executive Director of Resources, Greater London Authority): I am not certain what --

Keith Prince AM: Let me explain it to you again. If you were to lend £1 million, you would get 0.5% interest.

Martin Clarke (Executive Director of Resources, Greater London Authority): Yes.

Keith Prince AM: You are saying that that would be the loss. 0.5% on that is £50,000 on that £1 million. That is the figure. However, if instead of lending that money out you were to use that to reduce your borrowing liability and you were borrowing at, say, 3%, that means you would save £300,000. If you are saying that the lost income from lending the money is £2 million, in reality, if it is six times that figure, it is actually costing us £12 million. If instead of putting that money into the LLDC we used that to reduce our borrowing, we would save the 3% on borrowing. I am putting it to you that the opportunity cost of that money is really £12 million.

Martin Clarke (Executive Director of Resources, Greater London Authority): The GLA is not borrowing, other than it has borrowed for Crossrail and the NLE. They are funded by discrete sources.

Keith Prince AM: Sure.

Martin Clarke (Executive Director of Resources, Greater London Authority): The GLA has no need to go out to borrow because the GLA's average cash balance is between £1.5 billion and £2 billion. If the GLA went and borrowed, for example, we would borrow and pay about 3% and then we would have to lend it out at about 0.5%. That difference is a cost to the GLA and so we are not borrowing.

What you are possibly suggesting is that non-Crossrail and non-NLE debt could be repaid and that currently stands at £245 million. The problem with that is that, when you repay borrowing, you have to pay a premium which penalises you from repaying early. We do not have any financial incentive to repay our existing borrowing because that would cost more.

Keith Prince AM: You could use it to offset future borrowing, could you not?

Martin Clarke (Executive Director of Resources, Greater London Authority): We do not have any plans. The GLA does not have any plans for future borrowing.

Keith Prince AM: No, that is fine. Thank you.

Gareth Bacon AM (Chairman): We are going to move on to a bit of a deeper dive on the revenue budget and Assembly Member Berry is going to lead that.

Sian Berry AM: Yes, thank you very much. Essentially, your operating expenditure in this budget period, excluding your finance costs, stays about static. It is about £25 million through the budget period. Is this now the resting point for the LLDC's expenditure?

Gerry Murphy (Acting Chief Executive, London Legacy Development Corporation): We have made significant savings on the base costs over the last few years. We are not complacent about that. It is broadly at about £25 million, but we have, as Martin [Clarke] said, resolved our funding gaps in 2018/19 and 2019/20. When we came last year, we had funding gaps in those two years and we have resolved that, but we then have to bridge funding gaps in 2020/21 onwards. Therefore, we are continuing to look at ways both to reduce costs and to maximise our income to bridge those gaps. While we have set out where we think we are, which is a broadly level £25 million, actually, we are constantly looking at ways to both reduce costs and maximise income.

Sian Berry AM: You have made some cuts and savings in 2018/19. Can you give us some more detail of that and what actual changes you have made?

Gerry Murphy (Acting Chief Executive, London Legacy Development Corporation): There is broadly £2 million of savings and they relate largely to a reduction in the regeneration budget. Probably about half of that relates to the transfer of the Global Disability Innovation Hub to our Cultural and Education District (CED) partners at University College London (UCL). They are taking forward that work and, essentially, the Paralympics legacy for the Queen Elizabeth [Olympic] Park will be carried through that work. That is some of it.

Some of it is a planned reduction in the jobs and skills budget and the socioeconomic budget, and planned reductions in community engagement. The original plan of the regeneration budgets was always to seek to seed-corn local activity to pick up those budgets and we are seeing that.

The efficiencies relate mainly to improvements in the trading position and, on the London Aquatics Centre and the Copper Box Arena, utility savings and rates savings. On the [ArcelorMittal] Orbit, we are seeing an improved performance over what we considered we might get last year. Although we forecast an improvement last year on the Orbit, as a result of the slide, what we are seeing is a better performance there. That is where some of the efficiency is coming through.

We are also looking at IT costs. We are looking to secure our IT services, previously outsourced, through the GLA, and so that will create further savings or further efficiencies.

Sian Berry AM: Can I ask about your income and can I ask Sir Peter Hendy these questions, if that is OK? Under the budget line "Park operations and venues", that seems to be where most of the income - yes, almost all of the income - that you are getting is coming from. There is some from you being a planning authority. There is a bit coming through from developments. Is that line where the Fixed Estate Charge lives within the budget?

Gerry Murphy (Acting Chief Executive, London Legacy Development Corporation): Yes.

Sir Peter Hendy CBE (Chair, London Legacy Development Corporation): You can ask me, but you might get an answer from Gerry.

Sian Berry AM: As your main source of income, that seems to be quite lagging, but also it seems to be reducing in future years. Can you explain why that is and what is going on with that? Why would something that comes from people moving into the Park reduce, given they are not moving out?

Gerry Murphy (Acting Chief Executive, London Legacy Development Corporation): Within that line is Fixed Estate Charge income. There is about £1.8 million forecast next year for Fixed Estate Charge income and you are absolutely right. That grows as more people move into the Park and so, over the budget period, we are expecting to see that grow to £2.3 million.

However, also within that line is events income. We have had some very successful income-generating events. The Fixed Estate Charge is lagging because of the delays in the developments and so delays in people moving in. That has given us an opportunity on the events side because we have those development plots to continue to have events.

What you see is events income reducing as development plots go into construction. Therefore, the Fixed Estate Charge income does grow over the period, but the events income within that line does tail off towards the end.

Sian Berry AM: That makes some sense. Looking forwards to 2021/22, the Fixed Estate Charge income will not cover even a quarter of the running costs by then. Is this going to be a viable way to get to £25 million in the end?

Gerry Murphy (Acting Chief Executive, London Legacy Development Corporation): Over time, the Fixed Estate Charge grows and, as we have had to recalibrate our capital plans to try to accommodate the challenges that we have in our capital plans, there is a longer tail. Over time, the Fixed Estate Charge grows to about £12 million and, in today's money, that is about £7 million or £8 million. Therefore, no, on its own it will not cover the full operating costs.

However, within the £25 million, there are functions that, in the fullness of time, we would expect to contract. It is very difficult for us to forecast currently what the shape of the organisation might be post the delivery of the CED and post the delivery of some of our development sites, and baked into the £25 million is the structure of the organisation today. The Fixed Estate Charge, in time, does grow and grows to probably cover the minimum costs of maintaining the Park, but it will be a stretch to make it cover the whole of the LLDC's costs.

In saying that, one of the objectives that the Mayor has given Sir Peter [Hendy, CBE] is to look at the transition plan for the end game, if you like, for the LLDC. It is difficult to understand what the structure of the organisation might be today before that work is done.

Sian Berry AM: Yes. You have been quite clear that you know where the estate charge income is going. You said you have quite a good forecast for the estate charge income. Can we have that? Can we see it up to, say, 2030?

Gerry Murphy (Acting Chief Executive, London Legacy Development Corporation): Yes, absolutely.

Sian Berry AM: That would be really useful for us to have.

Gerry Murphy (Acting Chief Executive, London Legacy Development Corporation): I will say that it is dependent on the pace of development --

Sir Peter Hendy CBE (Chair, London Legacy Development Corporation): Absolutely.

Sian Berry AM: Is your forecast for what you expect there?

Gerry Murphy (Acting Chief Executive, London Legacy Development Corporation): Yes.

Sian Berry AM: That would be really useful to see. I guess, then, that your other increases in income are a bit more uncertain. You do not have a forecast for those, you were essentially saying there?

Gerry Murphy (Acting Chief Executive, London Legacy Development Corporation): We were trying to maintain a very long-term forecast of revenue and it becomes very difficult to do that. I felt it was not -- it is so baked in with assumptions --

Sir Peter Hendy CBE (Chair, London Legacy Development Corporation): It is not meaningful.

Gerry Murphy (Acting Chief Executive, London Legacy Development Corporation): -- that it is not meaningful, yes, but for the Fixed Estate Charge, we do have a forecast that is based on the rates.

The other thing that affects the Fixed Estate Charge is the level of affordable housing. There are different charges for affordable and private housing. That is one of the assumptions that is built into the forecast, but of course we can share that.

Sian Berry AM: Yes, we will have some questions about affordable housing later. Hopefully, the motivation is not higher estate charges for cuts in affordable housing.

Gerry Murphy (Acting Chief Executive, London Legacy Development Corporation): No. It is definitely more affordable housing.

Sian Berry AM: To Peter, then, if I can go to you now, essentially, we are looking at an organisation that is changing over time and where there is a lot of uncertainty about what shape it will be in 20 years' time. You have recently taken over. Are you undertaking a wider review of the organisation? Are you looking at, for example, whether you have the right people and expertise in place? Are you making any changes there? It is hard to tell from the budget lines whether there is staff turnover, for example, or changes in staff --

Sir Peter Hendy CBE (Chair, London Legacy Development Corporation): There are two things there. One of them is the work that the Mayor has asked me to lead about the long-term future of the organisation. That is going to take some time to do. I am on holiday for a bit in January and, when I come back, we are going to have to start. We are going to have to start by consulting the local authorities, which will all be interested.

Gerry is right, you cannot foresee the long-term shape of the organisation before you have worked out what it might consist of and what its future is. In the meantime, we need to take a view about the short- to medium-term challenges of the place. When Lyn Garner [Chief Executive, LLDC] turns up in February [2018], aided by Gerry, she will no doubt take a fresh view about how the organisation is structured and about what it needs to do. The new CED is a very significant capital project and it will need to be properly managed. The housing we will come on to and debate, no doubt. I would expect the organisation to change in accordance with what it is being asked to do. I cannot see how you can say much more than that at this stage.

Sian Berry AM: That is a holding position. You are not instituting a big strategic review?

Sir Peter Hendy CBE (Chair, London Legacy Development Corporation): No. I cannot see why you would. I am not the Chief Executive. We have appointed a new one, she can have a look when she comes.

We do recognise the scale of the challenge with the CED. That is a very significant capital project and a large-scale project for the organisation. I suspect that will mean that the organisation changes, but I have not made my mind up about how it should because that is not my job. That is the Chief Executive's job.

Sian Berry AM: Fair enough. That is all, Chairman.

Gareth Bacon AM (Chairman): Thank you.

Caroline Pidgeon MBE AM: In terms of some of the challenges, I know at other committee meetings we have raked over the [London] Stadium and I am sure we will again shortly, but have you looked at whether you have staff in place who have experience of running a venue or a Stadium? It seems to me that the staffing you may have might have been about development and about building out, but what about someone who has that experience which is very specialist to help you make a success of the venues in the Park?

Gerry Murphy (Acting Chief Executive, London Legacy Development Corporation): In particular on the Stadium, we have brought in specialist experience to help us develop the appropriate strategy to meet some of the challenges there. On the Park, we have a Park team, which looks after the Park and the venues. Within all of those venues, they are all outsourced to people who manage venues: Greenwich Leisure Ltd (GLL) on the Aquatics Centre and the Copper Box, and on Here East, Delancey, a property management company. The venues are all directly managed by the appropriate private-sector --

Caroline Pidgeon MBE AM: What about the Stadium?

Gerry Murphy (Acting Chief Executive, London Legacy Development Corporation): In terms of the Stadium, day-to-day management is by LS185, part of Vinci, which runs stadia in France like the Stade de France. The strategy has been to outsource running the venues to professional venue management and then, internally, we would act as a commercial client to that --

Caroline Pidgeon MBE AM: Internally, you think you have the right people in post to manage those venues and the relationships there, or you are sweating the asset?

Sir Peter Hendy CBE (Chair, London Legacy Development Corporation): We are managing the companies that are managing them. That is the point.

For the Park itself, I would be surprised if there was much dissent in the way in which the Park is managed. Mark Camley [Executive Director of Park and Venues, LLDC] is very capable and he has the experience to do it.

In terms of the Stadium, what you are looking for is a management function to manage the people who operate it. When I turned up, I saw that Alan Fort [Chief Restructuring Officer, LLDC] had been hired in order to commence the restructuring of the whole of the Stadium arrangements. He is highly competent and that is exactly the right sort of person. With the cost of somebody with that sort of experience, you would not necessarily want them on the books and he is not on the books. He was procured and, as far as I can see, he is doing a really good job, although the results will take some time to come forward.

Gerry Murphy (Acting Chief Executive, London Legacy Development Corporation): I would also add that we are building our commercial function and have been doing over time, and so we are getting in more expertise in commercial management and have been doing that over the last couple of years.

Gareth Bacon AM (Chairman): We are going to move on.

Keith Prince AM: Thank you. This, firstly, is to you, Martin. Some of the questions you answered in your opening statement, actually. If we look at the capital costs budget and the figures between what the LLDC has submitted and what is in the Mayor's draft budget, there seems to be a difference. Can you explain why there is a difference in those figures?

Martin Clarke (Executive Director of Resources, Greater London Authority): I am trying to look where there is a difference. Can you point me towards what you are referring to?

Keith Prince AM: Yes. If we look at the LLDC's budget submission in relation to capital needs, for instance, it is saying that it needs in 2018/19 £102.9 million and the Mayor's draft budget is saying it needs only £98.2 million.

Martin Clarke (Executive Director of Resources, Greater London Authority): That reflects the work that has been done subsequent to that identifying the joint ventures, which, instead of the GLA giving money for the LLDC to do, the GLA will become the partner through its property company GLAP. That is the change. It is reflecting what I call the sustainable funding package we put together following the submission. Before these changes, the LLDC wanted to spend £822 million and, as I explained in the opening answers, we have changed that. We are going to lend the maximum of £520 million and do some direct grant funding, and the joint ventures that will be in the submission - which are Rick Roberts Way, the residential arm, the buildings that are part of the CED and Pudding Mill Lane - the GLA will do via GLAP.

Keith Prince AM: The difference over the four-year period is just shy of £100 million. Are you saying that the GLA is going to soak up that £100 million? Is that what you are saying?

Martin Clarke (Executive Director of Resources, Greater London Authority): The GLA will make the investments through GLAP on that, yes.

Keith Prince AM: All right. That is helpful. Thank you.

Len Duvall AM (Deputy Chair): Sorry. Can we just go back over that? Why is that, then? How does that work, then, in baby language? I listened very carefully to you earlier on, Martin, and your opening statement. I must say I thought it was a brilliant opening statement that completely mystified me. Take me back. Why that discrepancy? Is it some sort of Gordon Brown [former Prime Minister] Olympic fund that we pad out the budgets that these people can never foul on, then, or what? What is that about? Explain it to me in baby language.

Martin Clarke (Executive Director of Resources, Greater London Authority): You could say, in respect of a couple of projects the LLDC were going to do - we have had three projects - they are going to be party to joint-venture arrangements. Instead of the LLDC being the party, the GLA will become the party and, therefore, GLA resources will go directly into those investments.

Len Duvall AM (Deputy Chair): See, that does beg the question, then, going back to earlier on, about the form and the nature of this organisation and about what we want it to do, and how we want it to achieve it, does it not? If that is the case, thanks very much, why do we not cut these people out and deal with some of this in here - directly from this building? I understand about Mayoral Development Corporations (MDCs): the planning issue is worth a lot of money, and you give planning to yourself in some cases and so you have the form and function of going through that. That is worth a lot of money. Are you now telling me that they are not exactly doing some of the work and we are going to be doing that work or allowing the money to do that work?

Gareth Bacon AM (Chairman): We are funding it.

Len Duvall AM (Deputy Chair): We are funding it. They are not raising it. That is the case for some other projects.

Martin Clarke (Executive Director of Resources, Greater London Authority): The GLA was always going to fund this. The GLA was going to fund it by --

Len Duvall AM (Deputy Chair): Yes, I get that.

Martin Clarke (Executive Director of Resources, Greater London Authority): -- lending the LLDC money, etc.

Len Duvall AM (Deputy Chair): Yes.

Martin Clarke (Executive Director of Resources, Greater London Authority): Instead of that, the GLA will directly fund. The LLDC is still responsible for the developments going forward. It is just that the GLA cannot afford to lend the money to meet the entirety of the LLDC capital programme.

Len Duvall AM (Deputy Chair): OK. We will come back to this later on, then.

Keith Prince AM: I am glad you raised that point, Len, actually. If the GLA is going to take on the project rather than the LLDC, where do the profits go?

Martin Clarke (Executive Director of Resources, Greater London Authority): As joint ventures, the profits will return to the GLA, but the LLDC's plan might require the GLA to give them those profits over the longer term.

Keith Prince AM: Either we are "playing shops", as we used to call it in Redbridge, or we have a situation where, because you are not lending the LLDC the money in order to invest, they will therefore, further down the road, suffer as a result of loss of income.

Martin Clarke (Executive Director of Resources, Greater London Authority): No. As I say, if the LLDC --

Keith Prince AM: We are just playing shops on a ...

Martin Clarke (Executive Director of Resources, Greater London Authority): I can see why you are saying 'shops' and I think we are probably stopping playing shops because, before, we were giving money to the LLDC and any cost over-run risk was then forwarded to the GLA. This is just a direct financial transaction.

Keith Prince AM: This is a bit like keeping it off the --

Gareth Bacon AM (Chairman): Assembly Member Prince, could I ask you to -- this line of questioning is in the next section. We are doing a slightly deeper dive on that.

Keith Prince AM: All right. Sorry. I will move on. The next question, then, is to Gerry and it is around how you will pay the money being put into the Stadium back.

Gerry Murphy (Acting Chief Executive, London Legacy Development Corporation): Overall, the Moore Stephens report was quite clear on what the level of Stadium deficit is currently, and we have already managed to reduce that deficit, as we discussed here last time with a review of the seating configurations that we will use going forward. We have made a significant dent in those projected deficits.

What we have done to try to stabilise and turn around the Stadium is, over the summer, as Sir Peter [Hendy CBE] said, we have secured the appropriate resource to help us restructure the Stadium. We have simplified the partnership structure in order to make decisions more quickly and fleet-of-foot. We are working on a vision and a commercial strategy for the Stadium to understand how we can exploit the Stadium fully and bring it back to breakeven. In parallel, as we discussed in the last session, we are working on different ways of looking at the seating. We are working on improvements to the pitch that may mean that it can be reseeded more quickly. We are working on cost reduction at the moment. There is a stewarding review ongoing. We are also looking at utilities. We are targeting a 40% saving on utilities. There are a whole range of activities that are going on that we hope to see come together more at the end of the first quarter next year where we will have a revised strategy.

In terms of whether that will ever repay the investment, the repayment in investment is about - for the Stadium and for the LLDC as a whole - a repayment in economic activity in the area. We have had a much higher economic return on jobs. The jobs growth in the area since the Olympics has been five times what was expected. As Martin [Clarke] referred to, we have been modelling council house and rates growth and we expect in the mid-2030s to see income of £200 million a year on rates and growth.

Therefore, in a blunt answer, are we going to get the readies back, that will be difficult. The thing about a development agency is you get it back in the economic growth in the area, and that has been very successful to date and that is what we want to continue. We want to continue to see the area grow.

Keith Prince AM: I have a couple of things out of that. You have sort of answered my next question, but I will just park that for a minute. You say in relation to the seating. I understand at the moment there is court action in relation to the seating. What happens if you lose that court action?

Gerry Murphy (Acting Chief Executive, London Legacy Development Corporation): If we lose that court action, and our legal advice is very strong in that respect that we will not, but if we lose that, then --

Keith Prince AM: Can I just declare that I am a West Ham supporter, by the way, just so that other people know?

Gerry Murphy (Acting Chief Executive, London Legacy Development Corporation): -- then we will have a higher cost base and West Ham will have a higher income base at no cost to them. The dispute is that we believe they should pay for the additional seating that they want and they do not read the contract in the same way, and so it is a matter of interpretation between the parties.

Keith Prince AM: The lawyers are making loads of money, yes. Can we move on from that, then? You made a very good point that this is the Olympic site and that this is not just about money; it is about social benefits and so on. Would it not be fairer, though, if we were to take a view on that and if we were to say, "All right, we accept that a lot of the cost of the stadia - all of them - is something that was done by the Government for the benefit of London and Britain and so on and, therefore, write off some of that cost so that it is not a burden", and just recognise that whatever the figure may be - I will pick a figure out of the air, £500 million, but it could be anything you like - is being written off because that was a social benefit and should not, therefore, be a burden on the LLDC or Londoners and so on? Would that not be a more sensible approach? At the end of the day, this probably never will be paid off. What are your thoughts on that?

Martin Clarke (Executive Director of Resources, Greater London Authority): At the moment --

Keith Prince AM: Could I just ask Gerry's thoughts on it? I know what your thoughts are, Martin, but I just --

Gerry Murphy (Acting Chief Executive, London Legacy Development Corporation): Obviously, that would relieve the burden in terms of the repayment of borrowings - there is no doubt about that - and potentially free up money for more affordable housing, but we are tasked with balancing that borrowings budget and that is what we are seeking to do at the same time as maximise affordable housing. The idea when we adopted the loan funding was that we would seek to exploit the assets. They are not elastic, I think is your point. They are not elastic, those assets, and so they cannot continue to grow with the additional burdens, but we have been working with the GLA very transparently on how to square the circle and increase the level of affordable housing within that. However, without a doubt, it would mean that --

Sir Peter Hendy CBE (Chair, London Legacy Development Corporation): If I might say, you can see that that might be a very attractive prospect, but you cannot run this organisation on the basis that it might happen without somebody indicating that it will.

Keith Prince AM: No, I am not saying that you should make that assumption. I am just saying that that question should be asked.

Sir Peter Hendy CBE (Chair, London Legacy Development Corporation): If you look at it on a historic basis, there are from time to time occasions when people do write off significant levels of debt because they argue just as you have thought, but we cannot carry this on --

Keith Prince AM: It is a bit like Greece, is it not, really? It is like --

Gerry Murphy (Acting Chief Executive, London Legacy Development Corporation): We are part of the family and so it is --

Keith Prince AM: Martin, do you want to just comment?

Martin Clarke (Executive Director of Resources, Greater London Authority): What I was just going to say is, if we wrote off the debt, the GLA has lost up to £500 million and so it is a hit on the GLA. The LLDC balance sheet would be clear; the GLA would have £500 million - or whatever figure you want to say - less.

Keith Prince AM: Yes, we get that. Can we move on from that, then? There is some development on the Park and I will come to the affordable housing bit at the end, but the development on the Park is being delayed and, as a result of that, that means that there will be a point where that will damage the income versus the investment and so there will be a deficit. Would it not be the case that if that investment was not delayed, you would get a bigger income stream sooner and, *ergo*, that distance would not be so great at least?

Gerry Murphy (Acting Chief Executive, London Legacy Development Corporation): Yes, absolutely. As developments are built out and sold, the income comes in to repay the borrowings, but we also then get a Fixed Estate Charge, which supports our revenue model. The delays in developments we have are within the budget period, largely related to Chobham [Manor] and East Wick and Sweetwater. We have development agreements with private-sector developers and we do not have a huge amount of control over the timing of those. That is why we are looking at different models, as Martin referred to, with joint venture models, but you take more risk in a different model. The control-risk balance is something that we look at. There are delays and, because of the way that we have put them in the private sector, we do not have a huge amount of control over the timing of that. Those private-sector developers are reflecting the market changes.

Sir Peter Hendy CBE (Chair, London Legacy Development Corporation): And the economy is not being particularly kind to them.

Keith Prince AM: All right, and so they are being more cautious?

Gerry Murphy (Acting Chief Executive, London Legacy Development Corporation): Yes. I would say that the market conditions have affected them and there are specifics on Chobham. The construction of phase one took longer to deliver and we have seen a delay in receipts; however, we have received £40 million of income to date on the Chobham development and we are expecting the balance of phase one in February [2018].

Keith Prince AM: How are you going to manage that? It is now penal, is it not, the difference become income and expenditure? It is going to put more pressure on you, is it not? Whilst you have been able to reduce the borrowing, which will take some pressure off, the lack of income will put more pressure on you. How are you going to balance that out?

Gerry Murphy (Acting Chief Executive, London Legacy Development Corporation): In terms of the revenue funding?

Keith Prince AM: Yes.

Gerry Murphy (Acting Chief Executive, London Legacy Development Corporation): We have been reasonably successful at meeting the funding gaps, to the extent, actually, that we do not feel we need to fix the whole of the budget period and we have had that. When we came here last year, there were funding gaps in 2018/19 and 2019/20, which we have bridged. There are now funding gaps in 2020/21 and 2021/22 that we will be working on over the next couple of years. We are comfortable that we will be able to substantially reduce those gaps that have arisen through the delay in receiving the fixed estate charge.

Keith Prince AM: All right. Just going on to the affordable housing aspect - and other Members might want to come in on this - how adversely is the Mayor's insistence on high levels of affordable [housing] affecting your original income and capital receipts?

Gerry Murphy (Acting Chief Executive, London Legacy Development Corporation): The higher level of affordable housing impacts the receipts. What we have been trying to do is to look creatively at the problem of trying to square the circle --

Keith Prince AM: Sorry, can I just ask you another question? I do not expect you to answer, but it would be really helpful for the Committee. You would have had projected receipts at some stage. You now have this new requirement of higher affordable levels. Would you be able to share with us what your original expectation was and what your new revised expectation is? Not now because I would not expect you to do that, but could you share that with the Committee and perhaps write to the Chairman advising us what those figures are, please?

Gerry Murphy (Acting Chief Executive, London Legacy Development Corporation): It is still a work in progress. We have not concluded the work on the long-term plan to try to resolve how we deliver to the Mayor's target. That is something in time that we can do.

Keith Prince AM: You will know what your original expectations were, will you not?

Gerry Murphy (Acting Chief Executive, London Legacy Development Corporation): We do, but they --

Keith Prince AM: And you will have an idea of what they might be now, will you not?

Gerry Murphy (Acting Chief Executive, London Legacy Development Corporation): On the long-term plan, we are still working on it. We have been doing an awful lot of work over the last year on trying to resolve the long-term plan, but we have had other pressures. The Stadium is undoubtedly a pressure on the long-term plan. We have incorporated the tax --

Keith Prince AM: Of course, but I am just talking about what your projected receipts were for the development of the CED from the sale of housing or whatever and what they may be going forward as a result of having to provide more affordable housing. I accept that you may not be able to answer the second question immediately, but the first part you will have your original expectations?

Gerry Murphy (Acting Chief Executive, London Legacy Development Corporation): Yes.

Keith Prince AM: You would be able to share that with us, would you not?

Gerry Murphy (Acting Chief Executive, London Legacy Development Corporation): Yes.

Keith Prince AM: That is very helpful. There is one other question I would like to ask and that is going back to the Stadium. Do we know who it was - not the individual but which organisation - that negotiated the deal with West Ham and UK Athletics? Do we know which organisation was responsible for negotiating those contracts?

Gerry Murphy (Acting Chief Executive, London Legacy Development Corporation): I am going to fumble a bit --

Keith Prince AM: Can you come back to us on that?

Gerry Murphy (Acting Chief Executive, London Legacy Development Corporation): -- because there was a change in the organisation around a critical time.

Keith Prince AM: No, that is fine. You can come back to us.

Gerry Murphy (Acting Chief Executive, London Legacy Development Corporation): The Moore Stephens report identified ...

Keith Prince AM: Come back. That is fine.

Gerry Murphy (Acting Chief Executive, London Legacy Development Corporation): I can come back.

Keith Prince AM: No, I understand. That is fine.

Gerry Murphy (Acting Chief Executive, London Legacy Development Corporation): Sorry.

Caroline Pidgeon MBE AM: I wanted to go back to the seating issue because that is a cost and you are trying to reduce your annual costs by £4 million on that. I have two questions on that.

One is: part of the issue is you are putting back so many seats because you take them out for athletics and concerts, but in the contract you have, you are obliged to provide a capacity of only 50,000 seats for West Ham United games. Why are you not doing that, which would save considerable money in terms of moving seats, or is this something you are considering going forward and, if West Ham want more seats, they would have to pay for them?

Gerry Murphy (Acting Chief Executive, London Legacy Development Corporation): The seating requirement for the contract with West Ham is a minimum of 53,500 seats and there are also obligations around sightline distances from various aspects of the pitch that require the seating to come forward in the configuration for football mode. We are providing the seating as required by the contract. I do not --

Caroline Pidgeon MBE AM: Is this something you will reconsider or maybe [Sir] Peter [Hendy CBE] might want to take away? My understanding from looking through it is there is clause 15.6 of your contract which suggests you are obliged to provide a capacity of only 50,000 seats for West Ham United games. That could be something you could look at potentially as a way of making savings in terms of seating.

Sir Peter Hendy CBE (Chair, London Legacy Development Corporation): I can guarantee it will create another legal case --

Caroline Pidgeon MBE AM: I am sure about that, but I --

Sir Peter Hendy CBE (Chair, London Legacy Development Corporation): -- absolutely immediately. My understanding is what Gerry said, which is that the obligation currently is 53,500, but if --

Caroline Pidgeon MBE AM: Is that something you would look at for me that I have flagged? Is that something you could look into?

Sir Peter Hendy CBE (Chair, London Legacy Development Corporation): We can certainly look at it. I do not believe you are right, but I am not being definitive about that.

Caroline Pidgeon MBE AM: OK. The other issue I want to throw out there is this. You are, every year, having to take seats out for athletics. I have been to stuff at the Olympics; I went to the World [Championships in] Athletics. It was fantastic. Could you not just say, "We are going to put some capital into somewhere like Crystal Palace and that is where the athletics will be ever year and then, once every decade or whatever, we will host the World Athletics and we will pay for that"? Could you not just do that? That would save lots of money.

Sir Peter Hendy CBE (Chair, London Legacy Development Corporation): There is an interesting suggestion.

Caroline Pidgeon MBE AM: Is that something you are looking at?

Sir Peter Hendy CBE (Chair, London Legacy Development Corporation): One of Alan Fort's jobs is to look at a strategy, as Gerry [Murphy] said, for the total use of the Stadium, which includes its transformation for athletics. As part of that, I was very interested to read recently that [Rt. Hon Lord Sebastian] Coe [President of the International Association of Athletics Federation] said publicly that he believed that athletics matches should be, in future, in a different format. That is a very interesting proposition, more like one-day cricket and that sort of stuff. In fact, if that suggestion were to be adopted, it would be much easier to have athletics in the Stadium without expensive seat moves. That is clearly something that we will want to understand because the one thing that you can say about [Rt. Hon Lord] Seb [Coe] is that he is a visionary in athletics and, if his belief is that athletics matches generally in the future will be conducted in a different way, which would save altering the Stadium, we of course would be very much in favour of that.

I am talking about it in the conditional because he is not UK Athletics and you are right that this summer was very successful. There is a question in many people's minds about whether every summer could be successful in that way. We do want to both honour our obligations and also reflect -- if it is right what [Rt. Hon Lord] Seb [Coe] is suggesting that athletics might be held differently in the future, it might solve some of that problem for us. However, if Alan [Fort] were here, he would say that his mind is open to thinking about all of the projected uses of the Stadium in order to reduce the cost of doing it.

Caroline Pidgeon MBE AM: Presumably you are going to need a running track because that is part of athletics, and so if --

Sir Peter Hendy CBE (Chair, London Legacy Development Corporation): Well, I do not have what [Rt. Hon Lord] Seb [Coe] said to hand. I have dropped him a line and said, "I would be really interested to hear what you have to say", because sport is changing. If it changes in a way that avoids us having to expensively reconfigure the Stadium, that is a really good thing, but let us understand it first. Let us also recognise at the moment that we do have some obligations to UK Athletics, which they will be anxious for us to fulfil. But for timescale I would have met Richard Bowker [CBE, Chairman, UK Athletics], who is very anxious to meet me, but he can meet other people.

Caroline Pidgeon MBE AM: In the short to medium term - because big changes like that will be longer term - is it something you are considering, whether you could just put money in elsewhere to hold the athletics elsewhere in order to save huge amounts of money in the Stadium?

Sir Peter Hendy CBE (Chair, London Legacy Development Corporation): The other thing worth thinking about is the announcement of Birmingham for the Commonwealth Games - and we need to see what they will do in Birmingham for athletics - and that may be relevant as well. That will unfold. It has not yet started.

Caroline Pidgeon MBE AM: It sounds to me like there is some work going on there. We might need to come back to it.

Gareth Bacon AM (Chairman): On that, just to refresh my - and everyone else's - memory, from the Budget Monitoring Sub-Committee meeting that we had on 13 December [2017], we did a bit of a dive on this, did we not? One of the things that came out was that for the World Championships [of Athletics], there was a much more significant seat move required because of the location of long-jump pits and medal ceremonies and things like that. I seem to recall from that meeting that we were told that for, say, a Diamond League meeting, you would not have to move the seats in quite the same way, and that is a key part of the savings you are looking at making. Am I right on that?

Sir Peter Hendy CBE (Chair, London Legacy Development Corporation): That is correct.

Gerry Murphy (Acting Chief Executive, London Legacy Development Corporation): Yes.

Gareth Bacon AM (Chairman): The other point I would like to put out now is just in relation to what Assembly Member Pidgeon said. You have a contract not just with West Ham but also with UK Athletics, which involves using the Olympic Stadium. Is there a danger that if you were to do as Assembly Member Pidgeon suggests and say, "Instead of you using the Olympic Stadium, we will put a bit of extra money into Crystal Palace and you can go there", you would find yourself straight back in the High Court alongside West Ham being sued by your other tenant?

Gerry Murphy (Acting Chief Executive, London Legacy Development Corporation): Potentially, yes. It is the cheapest option.

Gareth Bacon AM (Chairman): The other point that needs -- Tottenham Hotspur's bid, when this was all discussed, involved knocking down the Olympic Stadium and building a purpose-built football stadium and putting money into Crystal Palace to make that suitable. I do not know how many Members have been to Crystal Palace to watch athletics --

Caroline Pidgeon MBE AM: I have.

Gareth Bacon AM (Chairman): -- but the capacity there is nowhere near the Olympic Stadium and the stands do not go all the way around the track. It would be a significant step down for UK Athletics to go there rather than the Olympic Stadium.

Sir Peter Hendy CBE (Chair, London Legacy Development Corporation): All you can conclude out of this is that we have to be alive to all of the possibilities in the future, which we are, and in meaningful but robust discussions with all of the people who believe we have obligations to them to make sure that we can manage those obligations in a way that suits the public purse. Nothing you have said is outrageous but all of it is conditional on a discussion where you start with people who do have legal rights to the Stadium.

Sian Berry AM: I just want to go back to clear up a little bit about the grant, the borrowing limit and the switch of some of the projects into GLAP. Am I right? The sections you highlighted to us at the beginning, Martin, in clauses 9.2 to 9.6 in the draft budgets, say things like -- for example, you are taking the joint ventures away from the LLDC. We have discussed before how that might affect the LLDC's income. Those are expected to bring income back into the GLA?

Martin Clarke (Executive Director of Resources, Greater London Authority): Yes, and then --

Sian Berry AM: And provide 50% affordable housing at the same time?

Martin Clarke (Executive Director of Resources, Greater London Authority): Yes. The actual decision on the joint ventures has been agreed, but the mayoral policy is 50% affordable housing, and so that is the work that, as Gerry [Murphy] was saying, is still going on and which we need to do, yes.

Sian Berry AM: That will apply?

Martin Clarke (Executive Director of Resources, Greater London Authority): Yes.

Sian Berry AM: It seems to me that the line in clause 9.6 that says, "There will be sufficient resources available within GLAP to make the equity investments in the direct ventures", makes things sound quite relaxed, in fact, within the budget and you are confident you can do that. Those items are not in the budgets under the GLA Mayor yet, though, are they?

Martin Clarke (Executive Director of Resources, Greater London Authority): No.

Sian Berry AM: They are not capital investments that are planned?

Martin Clarke (Executive Director of Resources, Greater London Authority): Correct.

Sian Berry AM: There will be a plan coming forward, though, looking at costs and benefits of making these investments and all of that kind of thing?

Martin Clarke (Executive Director of Resources, Greater London Authority): Yes. As I said, we will very much flesh out this capital strategy. We are just trying to give a highlight of what is going to be a centrepiece, obviously, requirement.

Sian Berry AM: Yes. The format of the strategy with the new capital plans, the borrowing limits and all of that is actually much more useful than previously. I am quite happy with it. You said earlier that the GLA would not be borrowing money to give the money it is giving in grants within the LLDC; it is just finding that within its cash balances.

Martin Clarke (Executive Director of Resources, Greater London Authority): Yes, it is.

Sian Berry AM: Just to clear up this, the line in the normal revenue budget that says, "Provision for repayment of debts/other grant payments LLDC", is not you repaying debt; that is just --

Martin Clarke (Executive Director of Resources, Greater London Authority): Yes. I will try to get this clear. In previous years, the line just said, "Provision to repay debt", which tried to give a trail from what we called that line in the past to what it means in the future -- I am sure we can clarify and get a snappier title for it. That is why also we --

Sian Berry AM: It just read a little bit like the GLA was repaying debt and so --

Martin Clarke (Executive Director of Resources, Greater London Authority): Yes, and we did try to put a footnote underneath to try to explain it, but yes.

Sian Berry AM: OK. The GLA is not borrowing yet but it might within this capital plan, potentially, borrow to fulfil these joint ventures?

Martin Clarke (Executive Director of Resources, Greater London Authority): On the basis of our cash flow forecasts, the GLA should have no requirement, I would say, in the foreseeable, in the sense of in the 2020s, of having to go out to the market to borrow.

Sian Berry AM: Yes, but the GLA can borrow if it needs to. Is that correct?

Martin Clarke (Executive Director of Resources, Greater London Authority): Yes.

Sian Berry AM: There is a very high-looking prudential borrowing limit listed in this capital plan.

Martin Clarke (Executive Director of Resources, Greater London Authority): Principally, that is for the NLE and Crossrail, for which we raise the debt and then give the money to TfL. I always thought we should call this the 'GLA Debt Authority' at times.

Sian Berry AM: Those limits are assuming that the Crossrail income comes in to you, yes?

Martin Clarke (Executive Director of Resources, Greater London Authority): That is the cost. That reflects the amount we have to borrow for those two major rail schemes.

Sian Berry AM: OK. We were joking around a little bit a minute ago about the fact that you potentially could write off the debt to the LLDC.

Sir Peter Hendy CBE (Chair, London Legacy Development Corporation): I was not joking.

Sian Berry AM: Everyone laughed at it. I do not know whether that was a laugh that was no or a laugh that was yes or --

Sir Peter Hendy CBE (Chair, London Legacy Development Corporation): I took Keith's [Prince AM] suggestion extremely seriously, actually.

Sian Berry AM: I wanted not to take it too seriously but to look at it from a different perspective and what you said, Gerry, about how that would free up the ability to fund more affordable housing. Potentially, that is the GLA not so much writing off your debts but investing in affordable housing. Is that a thing that could be considered in your joint capital plan?

Martin Clarke (Executive Director of Resources, Greater London Authority): Yes. It would be open to the GLA, for example, over a period of time to set aside monies which could reduce the LLDC debt. The point I was making is that, whatever the figure is, if we wrote it off, it is a cause of expenditure for the GLA and it has to find that money. You could have a programme of giving debt relief but, to me, that is playing shops, in a way.

Gareth Bacon AM (Chairman): Very much so.

Sian Berry AM: Yes, but it is raising money for -- in essence, we know the outcome of this. It trickles down into more affordable housing and potentially that has a --

Sir Peter Hendy CBE (Chair, London Legacy Development Corporation): To be fair to Martin, he also has to manage in line with some strident Government guidelines. Local authorities writing off large quantities of debt to members of their family will not be treated very easily by the Treasury, I do not suppose. It is usually the Treasury itself that writes the debt off in the end.

Gareth Bacon AM (Chairman): Indeed.

Martin Clarke (Executive Director of Resources, Greater London Authority): That is part of the reason behind local authorities being transparent with their capital strategies.

Sir Peter Hendy CBE (Chair, London Legacy Development Corporation): If you look at the 50-year history of the predecessors of TfL, every time there was a major reorganisation they wrote off all the debt. It was extremely helpful, but I do not see that condition very easily applying here.

Sian Berry AM: Yes. I was just saying essentially that it is not that helpful to look at it as writing off debt in the sense that there is nothing already there. We are looking towards the future.

Sir Peter Hendy CBE (Chair, London Legacy Development Corporation): I am going to spend the next six months going around and saying that Keith Prince suggested that it should be done.

Sian Berry AM: I agree with you there. I just have a final question about the [National] Lottery, essentially. The charities for some time have been asking when they might get the [National] Lottery money back that was taken to pay for the Olympics. That remains a long-term aim of the LLDC. The last time the Mayor - who was [Rt. Hon] Boris Johnson [MP] at the time - answered questions about this, he said that the repayments might start in the mid-2020s and go on until the 2030s.

Is it somewhere in your long-term planning to repay the [National] Lottery and the charities that contributed towards the Olympics?

Martin Clarke (Executive Director of Resources, Greater London Authority): A bit of clarification first. It is the Government that has the obligation to repay the [National] Lottery. It was the Government which decided it was going to repay the [National] Lottery only as receipts are generated at the Park. If there was a will, the Government could repay the [National] Lottery now and the flow from the LLDC via the GLA could still come in future years. There is no obligation on the LLDC to repay the [National] Lottery. There is an obligation on the LLDC to pay the GLA and the GLA has an obligation to pass a portion of those receipts over to the Government. There is no direct link so that the GLA repays the [National] Lottery or the LLDC repays the [National] Lottery. The Government could do it.

Sian Berry AM: Yes. That is right. At the moment, essentially, that obligation still remains? It has not been changed since people have been asking? Nothing has changed?

Martin Clarke (Executive Director of Resources, Greater London Authority): Yes, correct. I made tentative enquiries following the change in mayoralty: could the receipt-sharing agreement be renegotiated? The answer I had at that time was no.

Sian Berry AM: Thank you.

Gareth Bacon AM (Chairman): Moving on to our final section, which is about long-term viability.

Len Duvall AM (Deputy Chair): Let us go back to the easy question first. Somewhere in your earlier answers you may have answered it, but for clarity could you just re-answer it? What purpose does capping the GLA loan to the LLDC have when the GLA will simply provide direct funding to the LLDC above that level?

Martin Clarke (Executive Director of Resources, Greater London Authority): The starting point is that the LLDC has a long-term plan, which the Mayor supports, which would require £822 million of investment by 2022/23 and that is set out in paragraph 9.4. The work that Gerry [Murphy] and I have done together with our colleague David [Gallie] and treasury management experts, etc, is that we think that the GLA can prudently afford to lend the LLDC only £520 million. There is a gap of about £300 million between what wants to be delivered, the investments required and what can be funded by direct borrowing.

Therefore, what we have sought to do is provide £300 million - there or thereabouts - from other means. That is a mixture of a repurposing of a direct charge on the GLA budget, which varies between £15 million and £12 million a year and under the current plans we will review that each year, and, in essence, investing the receipts that have been generated by the GLAP.

Len Duvall AM (Deputy Chair): It was always going to be the plan that there would be a cap at some stage and you would do it by direct -- this other form? Is it one simply that says one we get the money back and the other one we do not get the money back?

Martin Clarke (Executive Director of Resources, Greater London Authority): No.

Len Duvall AM (Deputy Chair): It does not work like that?

Martin Clarke (Executive Director of Resources, Greater London Authority): That was always the plan --

Len Duvall AM (Deputy Chair): You can assure me?

Martin Clarke (Executive Director of Resources, Greater London Authority): Then, since all the risks of the joint ventures fall to the GLA and the fact that the GLA has a property company and the fact that the GLA has expertise in David Lunts' [Executive Director of Housing and Land] team, that just means, to me, it makes more sense for the GLA to fund that directly and be the other partner in the joint venture.

Len Duvall AM (Deputy Chair): Joint ventures have always been open to the LLDC, have they not?

Martin Clarke (Executive Director of Resources, Greater London Authority): Yes.

Len Duvall AM (Deputy Chair): There have been choices. You either do it yourself or you do a joint venture or you come back into the GLA family, which goes back to the form and structure of the MDC itself, does it not?

Martin Clarke (Executive Director of Resources, Greater London Authority): Yes.

Len Duvall AM (Deputy Chair): Therefore, in doing that, is the joint venture an answer to one of the problems of speeding up the buildout of the Park?

Martin Clarke (Executive Director of Resources, Greater London Authority): Yes, the LLDC developed the propositions that joint ventures could help maximise the receipts in the policy objectives and potentially accelerate delivery. That was LLDC's plans and as reflected in their total requirement of £822 [million], which I am saying they cannot afford, but the GLA has that expertise and the resources that they could put in. At the moment, it is just getting access really to other GLA funding to deliver that.

Len Duvall AM (Deputy Chair): Let us explore that further. The access to other GLA funding, this direct funding would come from the Housing and Land Budget, or is it coming from the general GLA funds, and is that then not the follow-on from the joint ventures that if we want affordable housing then housing subsidy is also part of that that comes into these projects or is that over and above this money that you are calculating into these budgets?

Martin Clarke (Executive Director of Resources, Greater London Authority): At the moment we have not concluded if any housing subsidy is required. That debate is still going on. The analysis that has been done is, in essence, what is the capital receipts you get from joint ventures on the existing planning assumptions, which is 35%, how can we get that up to 50%, and then if there is a gap that then could require, what scope does the GLA have to give a housing subsidy, but there is no conclusion to that work yet.

Len Duvall AM (Deputy Chair): In terms of long-term viability, housing subsidy has to be on the agenda.

Martin Clarke (Executive Director of Resources, Greater London Authority): Yes.

Len Duvall AM (Deputy Chair): I am surprised at this stage of the budget, even at this early stage of the budget, that no one is talking about that. If part of the problem is the long-term viability of this is being, OK, you have had some problems and distractions, the Stadium being one, but one of the crucial problems in terms of your performance is the buildout and the delays in the buildout in terms of getting to where you are. If that delay in the buildout, it says, "I can build all owner-occupation and, thanks very much, I will take the money", but the affordable bit is not there, you are going to need a subsidy for it over and above this direct. On various joint ventures, various sites, it will not be a blanket subsidy across the Park; that is what a housing subsidy, housing money, given by central Government to this body to deliver affordable is going to be used on these joint ventures.

Martin Clarke (Executive Director of Resources, Greater London Authority): I will declare this is beyond my area of expertise. However, on the numbers, I have come to the conclusion that probably it will require housing subsidy, but at the moment the schemes for Rick Roberts Way and Pudding Mill Lane are still very much under development and I have yet to see what the outcome is from that. If that shows a gap between the receipts required to meet the LLDC's needs, the housing subsidy will then come into the equation and then of course it will be a question of how much housing subsidy you can put in.

Len Duvall AM (Deputy Chair): That gets you from that 35% up to the 50%, does it not; it is that gap between pushing that up. OK, so let me go back --

Martin Clarke (Executive Director of Resources, Greater London Authority): It is not just pushing it up, it is real ongoing work in progress with the development of the housing at the LLDC and our housing colleagues here.

Len Duvall AM (Deputy Chair): That is why I am being very clear that at this stage of the budget you should be clearer with me that housing subsidy is on the agenda and it will be a requirement, whereas it was not in the past, and it is clear to make things happen, speed things up, get us from A to B to C, then we need it. That seems a no-brainer to me of where we are. But let us just go back again because I am not clear, so where does this pot of money come from? If it is not coming from Housing and Land, the direct funding, not the loans, is that coming from the GLA general whatever-you-call-it in your technical language?

Martin Clarke (Executive Director of Resources, Greater London Authority): Yes. It is a mixture. If we look at the GLA budget documents, it is the line that Sian [Berry AM] showed. There is a line on page 17, which says, "Provision for repayment debt, other grant payments, LLDC", and you see there is a budget line in the general GLA budget, so that resource is coming from general GLA resources.

Len Duvall AM (Deputy Chair): In that sense, and the Mayor has made a choice to do that, I mentioned earlier on that gap between what the LLDC wants to deliver from the loan to this way of funding that gap was always there in some degree, or do you think it is revised, revisions, problems?

Martin Clarke (Executive Director of Resources, Greater London Authority): If we go back two years when the LLDC did the last substantive long-term plan, under then projections on house price inflation and tender price inflation over the period, there was a surplus of about £400 million. When we revisited the figures and, credit to Gerry and the team, they did a much more robust bit of work on future price movements, taking into account how the economic climate had changed. That £400 million had reduced to just above zero or just below zero and over that timeframe you have no tolerance for any risk and therefore we took the view, how could Gerry prudentially borrow that sum of money, because you could not guarantee, in foreseeable circumstances, that you would have access to repay it. That movement was more just better estimates, reflecting more up-to-date market conditions, and probably a more thorough analysis. This is something we will have to keep doing each year.

Len Duvall AM (Deputy Chair): Of course with some of this money you have no choice. One of the Stadium problems is you have to do something with seating either way, it is going to be a bit of a big hit, but it would stop haemorrhaging some of the losses at the Stadium. On some of these other schemes and other issues you do have a choice, so where does that appear, does that go to the LLDC Board or is that a choice that comes back to the GLA, in terms of the consultation arrangements around where money is, because these are big figures, are they not? If you go down route 1 it will cost you X, if you took route 2 it would cost you Y, as we have learned joint ventures is a way of, not just speeding up delivery, but also shifting some of the costs off you to some degree, do you know what I mean, not the risk, it is a changed way of implementation.

Where do these choices appear? How can I track this in this world of transparency that you are making the right choices both for the long-term viability of your organisation but also for the budget that we are giving you and the spend and the value for money and outcomes and all that?

Martin Clarke (Executive Director of Resources, Greater London Authority): Hopefully Gerry [Murphy] will come in, but the initial decisions, original decisions, authority of decisions on the schemes and plans, are a matter for the LLDC Board and its committees to take, but on the direction and delegation arrangements some of those decisions also need the Mayoral consent, so you do have both parties. Schemes over a certain value need the Mayoral consent; the long-term plan needs Mayoral consent; their annual budget needs Mayoral consent. Initial decision making is taken at LLDC Board level. When it comes to the GLA in all these things we try and make it joined-up, no surprises coming to the GLA. All the initial business cases, etc, are all going to be LLDC documents, but then Mayoral Decisions will be taken with the Mayoral Decision form.

Len Duvall AM (Deputy Chair): In earlier answer to the Chairman, or maybe to another Member of the Committee, we talked about where this direct funding, if we had a choice, I am not saying we would not spend it on you because you are a worthy organisation doing a worthy job, but our ability would be to spend that on any other GLA projects or part of the GLA family if we chose to do it. It could be anything we want it to be.

Martin Clarke (Executive Director of Resources, Greater London Authority): Yes, it is a decision for the Mayor, and the Assembly to the extent within its powers, to have a different priority, so at the moment the Mayor's priority, reflecting the budget proposal, is a capital programme for LLDC that is going to cost over £800 million. It is open to all the decision-makers that, "We do not want that, we want a lower one", so in a way my task is how do I finance and fund that priority given constraints like non-prudential borrowing.

Len Duvall AM (Deputy Chair): Gerry, can we just turn to you? One of the issues is whether you will ever be able to repay your interest cost to the GLA.

Gerry Murphy (Acting Chief Executive, London Legacy Development Corporation): We are directly funded for the interest cost, we do not have the revenue funding for the interest cost and there are no plans to accommodate the interest cost in our revenue budgets. We are seeking to become financially sustainable. Those interest costs reduce over time as the borrowing is repaid but that is not an objective of the revenue target.

Len Duvall AM (Deputy Chair): Let us turn to the questions then in break-even and stability into break-even on your running costs. According to the briefing note I have, realistically the LLDC will need to at least quadruple its current income to break even on running costs and even that is ignoring interest costs. Can you achieve that?

Gerry Murphy (Acting Chief Executive, London Legacy Development Corporation): We touched on it slightly earlier in terms of the immediate target is to live within the grant funding provided by the GLA of £16 million a year and we are working our way towards that. In terms of overall breaking even, because of the long and slow build of the Fixed Estate Charge and other rental income, it will be some considerable time, particularly after the CED is built out and some of the development sites are built out, before we would be looking at that being completely self-sustaining without any GLA grant. The transition, we are getting then into very long-term forecasts for revenue budgets and Sir Peter [Hendy] has talked about the transition planning, so what the structure of the organisation might look like in 10 to 15 years' time. The immediate aim is to live within the grant funding available and we are working hard on doing that and we have been reasonably successful in bridging the gaps year on year. Over time we want to be completely financially sustainable but that will depend also on the structure of the organisation.

Len Duvall AM (Deputy Chair): OK.

Martin Clarke (Executive Director of Resources, Greater London Authority): I was just going to add that the missing part of that equation, which the LLDC do not get. It does not get the extra council tax and it does not get the extra business rates, which its activity has generated. If it were a local authority, it would get that income. That income comes to the GLA and the London boroughs. If you did a financial --

Sir Peter Hendy CBE (Chair, London Legacy Development Corporation): It comes to the point of the organisation because, if the point of the organisation is economic and social development then you would expect that to incur both capital and revenue cost and the view that we have taken at the Board, having looked at the progress of the revised business plan this year, is that our first job is to endeavour to do what the Mayor and the city expect the organisation to do and then you are trying to fund it because there will be very simple ways of reducing the amount of money that you would take, simply not do so much so quickly. That is really a bad thing to do. What you are trying to do is everything quickly because that is the right thing to do for the city and the economy. It answers the question about how you get where you do, which is that when we looked at the effect of the change in London's and the national economy, the change in house prices and so on, you get an unsustainable figure of debt, and so you then get into a discussion with Martin [Clarke] about how we might solve that issue in order to carry on doing what we are doing.

Len Duvall AM (Deputy Chair): Do you think this budget then gives you the stability to accelerate that mission that you are on about, social and economic development? Gerry, you described it as growth in terms of this particular project.

Sir Peter Hendy CBE (Chair, London Legacy Development Corporation): It enables us to continue on the path that we were on, when otherwise we would have had to have slowed down. The growth effect of doing what we are doing on east London and London generally is still there, which is very important, but without the sort of help that Martin [Clarke] has talked about and without the mechanisms that he has described to you, the only prudent thing to have done would have been to have gone slower. That is really quite a bad thing to do for London. There is a danger of saying something which might not sound right: we are not starting from the point of view of trying to balance the books in the short term, we are starting from the point of view of continuing the work that the organisation is doing for the wider economic and social benefit and finding a way of continuing it in economic circumstances which are more adverse than they were this time last year.

Gerry Murphy (Acting Chief Executive, London Legacy Development Corporation): We are seeking as part of the capital plan though to accelerate original plans to bring forward. Whether we are able to do that in all cases, but certainly we are looking to bring forward the development of Pudding Mill Lane, for example.

Len Duvall AM (Deputy Chair): I have two questions, one short term, one long term, to Peter. Where will we be in a year's time, then - which is very short, I realise - and what does it look like?

Sir Peter Hendy CBE (Chair, London Legacy Development Corporation): I would anticipate we will have found a way of proceeding with Pudding Mill Lane and the other development, which we are working on now. We will be much further down the road of restructuring the Stadium, fortunately. We will have things to talk to you about in the next year and, also, the CED will be a lot further on. Whether there will be a spade in the ground is an interesting question, but there might be a spade in the ground in order to facilitate further spades in the ground. Those are three issues, and in addition, the other things going on in the Park will be continuing to happen, and so there will be more employment this time next year than there will be now and there will be more people occupying housing.

Len Duvall AM (Deputy Chair): Just going back on that housing point, do you see the point that I made earlier to Martin Clarke about housing subsidy is a requirement in terms of delivering the affordability that we may want in this building?

Sir Peter Hendy CBE (Chair, London Legacy Development Corporation): It is a two-stage process. One stage is to find the capital money in order to carry on doing this at the speed at which we were doing, then the second question is how much can you get towards 50% without housing subsidy and what might be available from here in order to achieve it.

Len Duvall AM (Deputy Chair): Let us move on to longer term then. Let us get a new understanding of the new way of working in this building. From the GLA, you get finance from us, you get strategic direction via Mayoral Direction/talking to the Chairman and everything else, and you are now going to get what is slightly different in terms of support on some of your housing ventures via joint development, possibly housing subsidy - because I do not want to lose sight of that and have that come up out of the blue - in terms of the inputs into your MDC and in terms of delivering your agenda. I suppose I want to go back: the mission, we have MDCs for a focused delivery, for planning powers, which is quite key, that is one of your big key levers, and to bring about that growth. I used to think it brought it about in speedy terms. I know it is a long game in terms of that. Do I have that right about the inputs into your organisation from this building, as in the Mayor, into you delivering your objectives down on the Olympic Park?

Sir Peter Hendy CBE (Chair, London Legacy Development Corporation): It is about right. Speedy is all relative, is it not? Because by inspection, this is one of the most successful large-scale regeneration projects in the world and a lot has happened in the area in the last ten years. Could you actually have achieved that in any other way through normal local authority activity? Extraordinarily unlikely, I would have said. I cannot see how you could possibly have done that, even if they were superbly funded and absolutely focused on it. That is quite speedy. The struggle that we have had in the Board this autumn is to find ways of continuing at that rate in order to continue to secure the benefits of it. It is very fortunate that we have been able to come to a position with GLA involvement in these housing schemes, because otherwise we would have had to have concluded that we would have had to have slowed down and I do not think that would be a good thing.

Len Duvall AM (Deputy Chair): Thank you. Sorry, earlier on colleagues were asking questions about the nature of this organisation and that we could not quite see where it was going or not going. You, Peter, said, "That is for the Chief Executive to review about". One of our concerns is not so much the diversion - and the important diversion - of the Stadium, of taking out management time on that, but understanding about your organisation and the efficiencies. That is the word you used, Gerry [Murphy], that we are getting the best bang for the bucks out of the team that you have got delivering what you have and then maybe some new things coming on the horizon.

I do not quite get this about this organisation, that there is not some plan or some thinking about how that organisation needs to change very quickly in the first two years, about efficiencies and whether we have the right mix of people delivering the projects to a bit of a long term, actually meeting the challenges that we face now.

Tell me a flavour about when we might see that and the implications it has for future budgets, about the nature of it. I get it: you have people running the Park, you have maintenance, you have people on special projects - I presume the Stadium is a special project; I hope it is - and then we have got the rest of the day business that goes on. I do not get this feeling about this organisation. Does it need to change or is it more of the same and is it efficiently run, in your view?

Sir Peter Hendy CBE (Chair, London Legacy Development Corporation): I have to say, since I got there, I have been very favourably impressed by the competence and the drive that I can see in a number of different areas. It is an odd organisation in the sense that it is being asked to do some very different things. Sorting the

Stadium out is a huge commercial job and it does require, as somebody said earlier, some understanding about how world-class stadia work and it is also quite a challenge dealing with the existing tenant. They have strong views about their legal entitlement, shall we say.

The second thing is the establishment of the CED is itself a massive job. It is a massive job both in terms of dealing with all of the participants, who are well-respected international organisations in some cases, with their own management structures, and also the contemplation of the capital project which is entailed in having all those people side by side and also the re-planning of that, bearing in mind the change in the height of the housing and all that sort of stuff. Then the third thing is carrying on with this very important job of housing and sorting it out. I see those as three big issues which change in time from what needs to be done right now, which is the establishment of a long-term commercial plan for the Stadium and restructuring it.

The CED will change into a construction project, hopefully shortly, and that will require a different set of skills and the housing we will continue in the way that we have described. Underneath all that is the continuing - and very competent - running of the Park in a way that actually nobody has ever said to me it is not well-run. Mark Camley [Executive Director of Park and Venues, LLDC] and his colleagues are doing a pretty good job there. If you look at those three big things, you would see that there is a need for change in the organisation. It is a blend of whether you hire people as consultants to come in or whether you hire them as employees. On the whole, in my life I prefer employees, because they are committed to you and there is a lot of commitment in the LLDC.

The only reason I am being a bit cautious about it is that it is not really very fair on somebody coming into the Chief Executive's job brand new. I would like them to have a look around and it is for them to present a plan to the Board about how they are going to do that, not for me to tell them how to do it. That would be wrong. I have some views - I have some very strong views - because the capital project of the CED is a very significant challenge and we need to manage that properly. All my experience of those things, both in the last job and then in the other one that I do, is that they go wrong in the early stages and they never get right again, so I have seen some of them. There is one that has just gone right over the road, but that went wrong three or four years ago. We will have to have people on board who can do that.

That ought to give you a flavour of the expectation of the staffing and organisational structural change, but I do not want to be prescriptive about it and I also do not want to belittle the competence of the people we have, because one of the reasons it was easy to lose David Goldstone [CBE, former Chief Executive Officer, LLDC], though it is sad that he went, is that Gerry knows what she is talking about. That is very reassuring in these circumstances.

Gerry Murphy (Acting Chief Executive, London Legacy Development Corporation): I would add that we are an organisation that does regularly review the resourcing requirement and skills, and so we do have a model that we regularly update because we have gone through already a changing focus with the transformation and opening of the Park being the early stage and then into the housing and the CED. It is built in, but of course the new Chief Executive will come with fresh eyes and experience to look at that.

Gareth Bacon AM (Chairman): Members, we have reached the end of the session with the LLDC. Can I thank our guests for their time and for their answers?

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