# Assembly response to the Mayor's consultation draft budget 2011/12

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## Introduction

This is the formal response of the Budget and Performance Committee on behalf of the Assembly, to the Mayor's consultation draft budget for 2011/12 ('the draft budget'). The draft budget was published on 22 December and confirmed the Mayor's decision to implement a third consecutive freeze in the GLA council tax precept.

The budget is being set against the background of the Government's plan to reduce the national deficit. Nationally, there is to be a £98 billion fiscal tightening by 2014/15. As a result, the draft budget was published in the context of reducing government grants following the Comprehensive Spending Review (CSR) and continuing uncertainty in some areas around central funding for the GLA group in 2011/12 and beyond.

As well as making recommendations, in this response we seek to provide a commentary on the draft budget, presenting the key issues the Committee has explored during its work over the past year on the 2011/12 budget. We hope it will inform the next stages of the budget-setting process – the Assembly's consideration of the draft consolidated budget on 10 February and the subsequent meeting on 23 February, at which point the Mayor and Assembly must agree a budget.

The response appraises what is known about the GLA group funding position following the CSR and the consequences for savings requirements. We also set out the implications of funding reductions for services where they have become clearer, as well as where further information is required to make an assessment. Finally we recommend areas in which additional information should be provided on future funding expectations and the shared services programme, and call for responses from the Mayor to the questions raised by his strategic decisions.

## 1. Funding position following the CSR

*The GLA group's grant settlements for 2011/12*

Since the Government's confirmation in June 2010 that the results of the CSR would be announced on 20 October, it has been clear that this year's GLA group budget-setting process would be affected by uncertainty around grant allocations.

Usually the GLA and most of the functional bodies have indicative grant figures ahead of the final allocations in December. TfL had a longer-term funding settlement under CSR 2007. This year has been very different with, besides TfL, no information beyond the national picture until the middle of December.[1] This resulted in a delay to the publication of the draft budget. Furthermore, three of the functional bodies –the LDA, the MPA and LFEPA – still do not know all the elements of their grant allocations.

During this year's budget-setting process we spoke to the Mayor's Chief of Staff on three occasions – 24 November, 5 January and 11 January. While the situation did become clearer each time, there remained elements of uncertainty even after the Committee's final scrutiny meeting on the draft budget. In November, talking about the core GLA and the LDA, he highlighted three key "known unknowns" at that stage: the GLA grant, the LDA grant and the Localism Bill.[2] Apart from the LDA settlement these have now been clarified.

Following the final grant announcements it is now apparent that government funding for the GLA group will fall by around nine per cent, before accounting for inflation, between 2010/11 and 2011/12:

| **£m** | 2010/11 government grant (before in-year cuts) | 2011/12 government grant | Difference | |
|---|---|---|---|---|
| MPA | 2,634 | 2,535 | -100 | -4% |
| LDA | 320[3] | 217[4] | -103 | -32% |
| LFEPA | 270 | 261 | -9 | -3% |
| TfL | 3,711 | 3,274 | -437 | -12%[5] |
| GLA | 48 | 78[6] | 30 | 63% |
| **Total** | **6,983** | **6,365** | **-618** | **-9%** |

In the longer-term, the CSR indicated how grant funding would reduce over the four-year period (real terms):

- Police funding nationally will reduce by 20 per cent (in the first year core police grants have been reduced evenly across the country)
- Fire grants nationally will reduce by 25 per cent, to be back-loaded to years three and four of the period (changes to the formula for the distribution of the fire grant meant that the reduction for LFEPA will be below average for 2011/12 and

[1] MPA, LFEPA and GLA grant settlements were announced on 16 December 2010.
[2] Sir Simon Milton speaking at the Budget and Performance Committee, 24 Nov 2010, transcript p. 1
[3] In 2010/11 the LDA grant included funding for the London Waste and Recycling Board which in 2011/12 will be funded through the GLA (see footnote 4).
[4] This includes Olympic land and administration costs. The proposed programme budget is £86 million, compared to £170 million in 2010/11.
[5] Under its previous funding settlement TfL had been expecting £3,467 million in 2011/12. Under the new settlement the actual is grant £3,274 million - £193 million (5.5 per cent) less than it had been expecting.
[6] This includes the £23.2 million government council tax freeze grant and £9.5 million for the London Waste and Recycling Board, previously funded through the LDA. Excluding these the GLA's grant is around £45 million – £3 million (6 per cent) less than in 2010/11.

2012/13 – this may mean that the total grant reduction for LFEPA is less than 25 per cent, although this will not be clear until grant allocations for years three and four have been announced)

- TfL's grant will be £2.17 billion lower than it had been anticipating over the next four years – this amounts to a 21 per cent fall, the same rate of reduction as the Department for Transport's budget
- The LDA is set to be abolished at the end of 2011/12 with economic development responsibilities transferring to the GLA and government
- The GLA grant is not known beyond 2011/12 but local authorities' grants are set to reduce by an average of 26 per cent –there may be additional funding for former LDA functions but this has not yet been confirmed

*Funding for economic development*

The largest percentage fall in grant funding is for the LDA where current assumptions show programme budgets reducing by around 50 per cent in 2011/12.[7] There has been no formal confirmation of what, if any, central government funding will be made available to the GLA for former LDA functions from 2012/13.

With national funding for regional economic development set to be substantially removed, the Mayor has argued that funds should be made available for London because of its status as the "motor of the UK economy". Over the course of our scrutiny of LDA and GLA budgets for economic development in 2011/12, the Mayor and his staff have expressed confidence that additional central funding would be made available. His Chief of Staff told us,

> We are making an assumption -maybe a foolish one - that our GLA grant will need to reflect the additional duties that will be falling on this body and that, under the Government mantra of not passing on unfunded burdens, we will need to be compensated for those. We would expect, in later years, an adjustment of the core GLA grant to recognise that transfer.[8]

**The Mayor said that the Government recognised the value of providing additional economic development funding for London at a regional level through the GLA.[9] However, until the LDA settlement for 2011/12 and the GLA settlement for 2012/13 are announced, the extent to which this has been reflected in government spending decisions will not be known.**

*Lack of information in the draft budget*

The unprecedented uncertainty around future grants this year has meant that the level of information in the draft budget was less than has been the case in the past, affecting the Committee's ability to scrutinise the Mayor's plans. In previous years a three-year draft GLA group budget has been provided at this stage, even when grant levels had not been confirmed beyond year one. This year's draft budget presented a one-year revenue budget and a three-year Capital Spending Plan, which are the statutory requirements in each area. This level of information makes it difficult to assess the Mayor's strategy for dealing with the grant reductions over the CSR period.

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[7] Draft budget, 7.12
[8] Sir Simon Milton speaking at the Budget and Performance Committee, 5 January, transcript p. 4
[9] Boris Johnson speaking at the Budget and Performance Committee, 11 January, transcript p. 6

We recognise that grant settlements are not all available for the entire period. However, the MPA and LFEPA have grant levels for the next two years and TfL's grants are confirmed for the next four years. GLA and LDA funding is currently only known for 2011/12 and the Mayor's Chief of Staff told us that, while he would hope GLA grants in 2012/13 reflect new economic development activities, discussions with government about future years had not yet commenced.

Explaining the lack of information beyond year one of the budget, the GLA's Executive Director of Resources said that new forward spending plans (taking account of the new funding situation) had generally not yet been finalised. Nonetheless he agreed to provide, as a minimum, "high level planning figures" for future years in the next version of the budget document.[10]

**We were disappointed at the level of information provided in the draft budget. Even where forward spending plans have not been finalised we would have expected it to include, for 2012/13 and beyond, actual funding settlements where they are known (in many cases) or grant assumptions.**

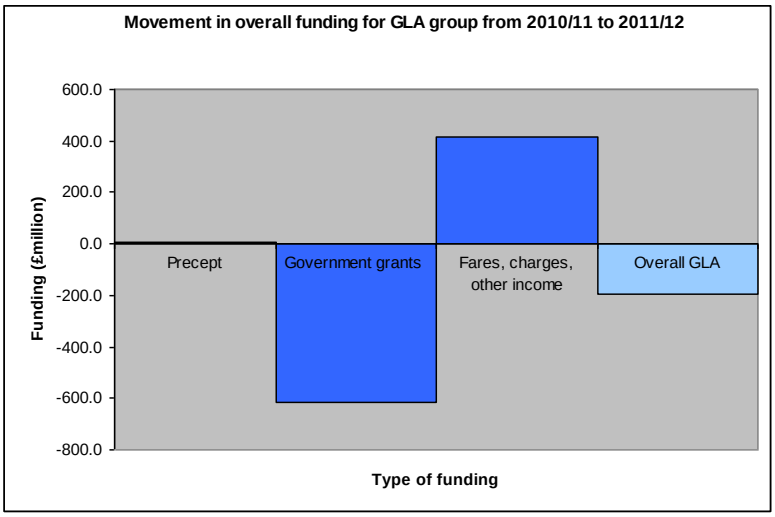
Recommendation 1
The draft consolidated budget, expected to be published on 2 February, should include future funding expectations and make clear the scale of new savings required in future years, based on the information currently available. This would allow us and others to assess proposals for the coming year in the context of the longer term picture insofar as we know it. The circumstances of this year's budget-setting make it more important, rather than less, to provide this information.

## 2. Balance between central grant funding and income raised locally

As we set out above,-across the GLA group government grants have reduced by 9 per cent (£618 million) between 2010/11 and 2011/12 which, the Mayor's Chief of Staff told us, was better than the national average.[11] Total spending by the GLA group in 2011/12, however, is only budgeted to reduce by £362 million (2.6 per cent).[12]

The potential scale of the funding reduction as indicated by the CSR has been partly mitigated by an increase in locally raised revenue generated principally through the fare box. Taken on a group-wide basis the net growth in fares and other income of nearly £400 million (7.1 per cent) means that less than half (48 per cent) of the total funding for GLA group services comes from government grants (compared to 52 per cent in 2010/11[13]). This shift from government funding to locally raised revenue, principally increased fares, raises questions about consequential changes to the proportion of funding borne by different income groups which may need to be addressed in the future.

[10] Martin Clarke speaking at the Budget and Performance Committee, 5 January 2011, transcript p. 7
[11] Sir Simon Milton, speaking at the Budget and Performance Committee, 5 January 2011
[12] Total GLA group spending will be £13,607 million in 2011/12 compared to £13,969 million in 2010/11.
[13] 2010/11 GLA gross expenditure budget (£13,964 million) less use of reserves (£500 million) = £13,464 million (recurrent funding); total government grant of £6,983 million = 52 per cent.




While the reduction in reliance on central grants could dampen the effect on services from any further grant reductions it does mean that Londoners are contributing more. This exacerbates a long-standing imbalance in the capital between tax revenue raised and central funding. According to the London School of Economics, the net outflow of tax from the capital to the rest of the UK has typically been in the range of £10 to £20 billion each year.[14]

Additional funds are being raised locally through, for example, the Crossrail Business Rate Supplement and sponsorship deals. Parts of the GLA group are also looking at ways of raising finance through prudential borrowing in new areas and the possibilities offered by bond issuance. However, while these mechanisms provide greater local autonomy for the capital, they also further increase the level of revenue raised from London residents and businesses.

On fares, the Committee has had indications from the Mayor that the RPI plus two per cent assumption for the annual fares decision would remain in place for the remainder of the CSR period as per the 2009 Business Plan.[15] However, given the fact that the 21 per cent grant reduction TfL faces over the years to 2014/15 is back-loaded to 2013-15, there is some doubt as to whether increases can be capped at this level. TfL's revised Business Plan will be published in spring 2011 which will contain further details on the efficiency measures planned to bridge the funding shortfall and confirm the assumptions surrounding the annual fares uplifts.

In the Committee's report into the Mayor's 2011 fares decision the Committee highlighted a trend that the balance of TfL's funding would shift increasingly towards farepayers in the years to 2017/18. The report stated that in 2009/10 for every £1 of funding from central government farepayers provided £0.99. Based on the assumptions within the 2009 TfL Business Plan of annual fares uplifts of two per cent above inflation, by 2017/18, farepayers would be providing £1.29 for every £1 from government. Since the publication of the fares report TfL has received a reduced grant settlement and has not experienced the dip in bus and tube ridership that had been expected following the economic downturn.

Assuming ridership remains buoyant, and RPI plus two per cent remains the policy for annual uplifts, the reductions in grant could see the balance of funding shift towards

[14] LSE/City of London Corporation, London's Place in the UK economy 2009/10, Chapter 7
[15] BP Committee 11/1/11 Boris Johnson/Sir Simon Milton

farepayers much more rapidly over the coming years than anticipated in the fares report. Ridership has been higher than expected so part of the grant reduction looks likely to be covered by the associated additional fares revenue. The January 2011 fares uplift will also result in an additional £165 million in fares revenue in 2011/12. To illustrate the shift towards farepayers, if the additional revenue generated from the 2011/12 fares uplift and additional ridership was replicated in each of the following three years, by 2014/15, farepayers would contribute £1.60 for every £1 from central government.

With greater reliance on passenger ridership for funding, given the inter-relationship between the strength of the economy and fares revenue, there is a risk to services moving forward should the economy suffer a further downturn in future. One future forecast for the London economy suggests the following:

> a return to relatively healthy growth for London after the recession. However, this is not guaranteed. Alongside this message of cautious optimism, there are other plausible scenarios pointing to the possibility that London might experience lower growth rates than in the past. This could arise as a result of tighter regulation of the financial services sector. Other potential factors that might put a brake on London's progress include a move towards protectionism and weaker political support for London in the wake of the financial crisis.[16]

The Transport Commissioner, Peter Hendy, when asked about the stronger than expected fares revenues, recently told the Committee that TfL may have required a reduction in services without the higher than anticipated ridership bridging the funding shortfall: "it is one of the reasons why we are able to look forward to a balanced budget for 2011/12 and beyond; because the cut of £2.17 billion over the 4 years of the public expenditure review is mitigated by a substantial increase in revenue compared with the previous plan."[17] He has also said that anything less than an RPI plus two per cent fares rise in 2011 would have "[endangered] vital investment in transport infrastructure and risk front-line services".[18] This highlights the dependency of service levels and levels of investment on fares revenue and, hence, the resilience of the London economy.

One way of maintaining fares revenue in response to any further downturn in the economy could be to implement higher than planned annual fares uplifts. As such the Committee's fares report recommended that the Mayor looks to maximise alternative means of raising finance to avoid further increasing the contributions from fare payers. We welcome the new revenue raising powers available through Tax Increment Financing (TIF) and the Community Infrastructure Levy (CIL). However, some of these funding mechanisms, while new, still have questions around their potential to fund large-scale investment projects in London.

For example the Mayor has raised the possibility of using TIF to finance an extension of the Northern line to Battersea and regeneration in the area close to the new US Embassy. This has been examined by consultants commissioned jointly by the GLA, TfL and the relevant boroughs who conclude, "there could be a role for TIF in financing some transport infrastructure, but that possible role, and the scale of that role, is still not clear". The possibility of funding an extension of the Northern line entirely through TIF is ruled out, although the report says there may be a role for TIF "over the longer term, and for a smaller project – perhaps one which has less risk involved".[19]

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[16] London's Place in the UK economy 2009/10, LSE/City of London Corporation, p2
[17] Peter Hendy, speaking at the Budget and Performance Committee, 5 January 2011
[18] Transport for London response to the Committee's fares report, 26 October 2010, p. 2
[19] Roger Tym & Partners, Peter Brett Associates and GVA Grimley, Vauxhall Nine Elms Battersea Development Infrastructure Funding Study, October 2010

**In order to relieve pressure on its budgets arising from grant reductions TfL has three main avenues: increasing fares income, finding additional efficiency savings or generating funding through the private sector by the means listed above. The revenue-raising potential of some of the newer alternative funding mechanisms is yet to be fully exploited and they have only been one-off sources of income for specific capital schemes.**

**While additional locally raised revenue for capital investment could go some way to off-setting reductions in central funding, TfL's long-term reliance on fares to fund infrastructure looks set to increase. This would not be a risk-free approach given the interdependence between ridership, fares revenue and the strength of the economy. As we said in our fares report, to minimise the need for fares uplifts TfL must find ways to use the new powers to leverage support from the private sector as soon as possible.**

## 3. The Mayor's approach and implications for savings requirements

*Measures in the draft budget to minimise the impacts of grant reductions*

The Mayor has again chosen to freeze the GLA council tax precept in 2011/12. As we noted in the Pre-Budget Report,[20] the decision appeared to be relatively straight forward this year given the Government's allocation of an additional grant to local authorities not increasing council tax. This amounted to £23 million for the GLA.

In an attempt to minimise the effects of grant reductions, the Mayor is proposing to change the distribution of the GLA precept in 2011/12. He intends to allocate additional precept revenue to the MPA and reduce the allocations to LFEPA, TfL and the GLA. There is also an additional £23 million available as a result of the Government's precept freeze reward grant. In summary, as compared to 2010/11, additional funding has been allocated as follows:

- MPA – £30 million
- Economic development within the GLA – £20 million

Broadly, this is funded by:

- Precept freeze grant – £23 million
- Reduction in LFEPA's allocation from the precept – £20 million[21] (11 per cent reduction)
- Reduction in TfL's allocation from the precept – £6 million (50 per cent reduction)
- Reduction in GLA's allocation from the precept – £2 million (2 per cent reduction)

Within the GLA budget there is also a "Contingency for GLA Group Budget" of £9 million which "will be reviewed in the light of the outstanding grant settlements when they are known" and could presumably be allocated to LDA or MPA activities depending on final grant allocations. Subject to the timing of the LDA settlement, the next version of the budget should clarify intentions for this fund.

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[20] Budget and Performance Committee, Pre-Budget Report, 1 December 2010, p. 32
[21] This is offset by £20 million from LFEPA's reserves

This strategic juggling of the available resources across the group is to be welcomed. It makes sense for the Mayor to use his position of responsibility for several large organisations to spread the effects of grant reductions given the different profiles of cuts across the functional bodies and the various starting points – including levels of reserves. In relation to reserves the Committee has consistently raised questions about the level of LFEPA reserves[22] and notes that even following the removal of £20 million in 2011/12 over £30 million will remain. The new minimum reserves policy agreed by the Authority in November 2010 is to maintain a general reserve of £30 million, the equivalent of 7 per cent of the net budget requirement. Prior to this it was set at 2.5 per cent or £10.7 million based upon the current forecast net revenue expenditure for 2011/12.

We have, though, raised questions about the sustainability of the proposed approach in future years. For example, what would be the implications for the MPA if it had to do without the additional £30 million in precept revenue it has been allocated for next year, mainly at the expense of LFEPA? Or could LFEPA cope without it in the longer-term? The Mayor's Chief of Staff's view was that the situation could be reviewed and the precept moved around accordingly on an annual basis. Specifically on LFEPA he believed that it could probably "sustain a lower level of precept into the future".[23]

The Mayor's Chief of Staff responded in the following way to a question about the sustainability of the approach in the 2011/12 draft budget:

> We need to keep an eye on the balances and reserves of all the functional bodies. [...] The most difficult part of your question to answer is what happens in future years because you will have noted that this is a one year budget that we have presented to you. That is really because of a complete lack of information coming out of central government about grant levels in future years. [...] We know roughly up until the Olympics, more or less, what our funding situation will be and how that can be managed but we will be looking to put in place the kinds of thinking and planning that would allow us to cope with more constrained budgets after that, should that be the case.

Recommendation 2

Recognising that uncertainty will remain in budgetary plans for future years, we call on the Mayor to demonstrate that decisions in his budget have been taken as part of a longer-term strategy. There are a number of strategic questions which are raised by the approach proposed for 2011/12:

- To what extent could LFEPA maintain service levels in future years with a smaller contribution from the precept?
- To what extent is the Mayor prepared to divert precept revenue to the MPA to maintain police numbers as government grants reduce?
- What does the Mayor see as the longer-term priorities for the GLA, given additional responsibilities for economic development, in the absence of the resources previously available to the LDA?

These questions should be addressed in the draft consolidated budget, due to be published on 2 February 2010.

[22] See, for example, the Committee's Pre-Budget Report 2010, 1 December 2010, pp. 26 &27

[23] Sir Simon Milton speaking at the Budget and Performance Committee, 5 January 2011, transcript p. 5

*Savings requirements*

Even with the measures outlined in the draft budget to minimise the impacts of grant reductions, substantial savings will be required in all of the GLA organisations next year and beyond.

For example, £158 million of savings and efficiencies have already been identified by the MPA in the draft budget. On top of this it still needs to find an additional £61 million to balance the budget – equivalent to 28 per cent of the total savings requirement. By the time of the draft consultation budget it is usual for savings for year one to have been identified. The extent to which the total requirement for savings (£219 million) will affect the force's operational capacity is not entirely clear from the information available, although the Mayor insists that service levels will be protected (see section 4).

At TfL a reduction in grant of £2.17 billion over the next four years will also generate substantial additional savings requirements. Although the biggest savings will need to be found towards the end of the CSR period, TfL's grants in 2011/12 will be £193 million less than it had been anticipating.[24] Given that TfL had already committed to making savings of around £5 billion to 2017/18, this additional funding shortfall results in a total savings requirement of some £7.2 billion – an eight per cent reduction to planned expenditure over the nine year Business Plan, without taking account of grant cuts which are likely in the years 2015-18.[25]

The draft budget sets out a number of areas in which TfL intends to make additional savings to meet this challenge, as follows:

- Crossrail (including a delay to the central section and rephasing of the other sections and stations) – £1 billion (shared with government[26])
- Stronger fares revenue and efficiencies identified since the last Business Plan – £800 million
- Tube upgrade programme (efficiencies and paring back of non-essential works) – £300 million
- Focussing on core priorities (including reducing funding for boroughs and introducing parking changes on TfL roads) – £300 million
- 'Project Horizon', a review of TfL's operations and structure, "including reductions in the number of jobs in the back office"[27]

The draft budget does not specify the scale of savings to be gained from Project Horizon but the Committee's Pre-Budget Report identified a further sum of approximately £270 million which would be required over four years to bridge the remainder of the additional budget gap resulting from the CSR. The Transport Commissioner told the Committee he was anticipating savings through Project Horizon by setting out to "strip out every piece of duplication, things that do not need to be done and things that can be done more

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[24] 2009 TfL Business Plan, p90, includes total of DfT transport grant additional Metronet funding and other grant items of £3,467 million. Total external grants in Mayor's consultation budget 2011/12, p38, of £3,274. Difference is £193 million.

[25] Net Cash requirement over 9 years of 2008 Business Plan £43,557 million; add back £43,846 million of income to give a gross expenditure in the period 2009-18 of £87,403 million. Total savings announced since this Business Plan of £7,170 million represents a reduction of 8.2 per cent of planned expenditure.

[26] Steve Allen, Managing Director Finance, TfL, speaking at the Budget and Performance Committee, 2 November 2010, transcript p. 19

[27] Peter Hendy speaking at the Budget and Performance Committee, 5 January 2011, transcript p. 50

effectively".[28] The Committee will want to revisit Project Horizon, and the scale of savings available, during 2011/12 as the results of the review become available.

More immediately, the Committee is concerned that the figures presented in the draft budget do not set out the most up-to-date information relating to TfL's budget for 2011/12. The savings and efficiencies table is "based on the 2009 Business Plan"[29], suggesting that the figures in the draft budget do not take account of the new savings measures announced at the time of the CSR.

Beyond the question of the savings figures being outdated, there is also a lack of detail and quantification in relation to TfL's savings plans. Directorate level – i.e. London Underground, Surface Transport etc – figures are given in the draft budget alongside a broad description of the types savings which TfL is looking to make. This is in contrast to the other functional bodies, including the MPA, which have itemised identified savings to a much greater extent, as well as including a figure for savings which are as yet unidentified but will be required to balance the budget.[30]

**The Commissioner told us that more detail would be available when TfL's new Business Plan had been agreed in the spring. Nonetheless, TfL's grant position over the next four years was finalised in October and it should be possible for it to set out the scale of savings required in 2011/12 and future years, even if it has not yet entirely determined where savings will be found. Although its call on the precept is negligible, TfL makes large demands on Londoners' income through the farebox. It is therefore important that it engages with the setting of its budget by the Mayor and Assembly in a more transparent and accountable way.**

Recommendation 3

We call on the Mayor to ensure that the draft consolidated budget contains up-to-date savings plans for TfL. It should include new requirements following the CSR, giving details of savings which have already been identified and a figure for those which will need to be agreed to make the annual budgets balance (as is the case for the MPA). We note that issues around the timing of the provision of TfL information during the budget-setting process are a recurring problem on which we also commented last year.

We would ask the Mayor to comment, in the draft consolidated budget, on the fact that these figures were not initially included in the draft budget.

## 4. Service and programme delivery implications

*Police, fire and transport services*

The Mayor has made it clear to the Committee that he does not expect any reductions in the GLA Group's core services in 2011/12. He said, "it is our intention to make sure that for the things that are core to our business we not only keep the present level of service but improve it."[31] This inevitably raises questions about which of the activities currently undertaken by each of the functional bodies the Mayor considers to be core.

[28] Peter Hendy speaking at the Budget and Performance Committee, 5 January 2011, transcript p. 45
[29] Draft budget, p. 67, text above Table 3
[30] See Appendix B of the draft budget.
[31] Boris Johnson speaking at the Budget and Performance Committee meeting, 11 January 2011

The Deputy Commissioner of the MPS told us that the current level of operational capability can be maintained in 2011/12 despite an expected funding reduction of £118 million (3 per cent).[32] He said that over 80 per cent of its identified savings are expected to come from support functions by focusing on changing the way the force uses its 'inanimate objects' such as buildings and vehicles. The remaining 20 per cent would come from efficiencies in operational activities such that the service that Londoners experience would not be affected. However, only when all the required savings have been identified for next year will the full effect of funding reductions on the front-line services be known.

Despite the MPA focussing its savings plans on inanimate objects, some savings will come from staff reductions. The latest forecast for police officer numbers at 31 March 2011 suggests there will be 33,318. This is 739 more than there were when the current Mayor took office in 2008, but 1,180 fewer than at 31 March 2010. However, the Mayor expected that officer reductions would be less that the forecast. He told the Committee that "one way or another we think there is going to be scope to reduce savings we are being asked to make in order to allow us to keep the number of warranted officers up."[33] This suggests that the MPA is considering reversing the current recruitment freeze to off-set the decline in police officer numbers resulting from natural wastage.

The Committee is currently carrying out an investigation into front-line policing. As part of this investigation the Committee is examining the effect of police officer reductions on front-line policing capacity. A report will be published in the spring and comment in more detail on the effect of reductions in police officer numbers on front-line policing and the Mayor's commitment to maintain or improve police services. At this stage we note that a decrease in police officer strength would not necessarily mean the service that Londoners experience would be affected since the MPA assures us that officer reductions would not come from front-line activities. It has also become clear that recruiting police officers may not be as efficient as employing civilians to back-office roles and redeploying officers to the front line. We will come back to these issues in our forthcoming report.

The Chair of the MPA told the Committee that the biggest risk facing the police service is the reduction in funding to bodies outside the MPS such as local authorities, although he provided no evidence to support this assertion.[34] He gave the example of child protection where local authorities carry the primary preventative role. We note the Mayor's commitment to take the issue of potential knock-on effects resulting from reductions in government funding to local authorities to the London Crime Reduction Board.[35]

**The Committee welcomes assurances that required savings can be made next year without reducing the force's operational capabilities. Maintaining or indeed where possible increasing operational capacity is particularly important given the Chair of the MPA's concerns about the implications for the police of reductions in funding to other bodies. As London works through this period of fiscal tightening and reduced government spending, the Police, as the default service to which the public turns to when others cannot be reached, may experience an increased demand for its services.**

The London Fire Commissioner told the Committee that "there are no cuts to the front-line service for next year".[36] The draft budget states that a savings requirement of £10.9 million

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[32] Tim Godwin speaking at the Budget and Performance Committee meeting, 5 January 2011
[33] The Mayor speaking at the Budget and Performance Committee meeting, 11 Jan 2011
[34] Kit Malthouse AM speaking the Budget and Performance Committee meeting, 5 Jan 2011
[35] Boris Johnson speaking at the Budget and Performance Committee meeting, 11 Jan 2011
[36] London Fire Commissioner speaking at the Budget and Performance Committee meeting, 5 Jan 2011

(2 per cent) in 2011/12 (compared to 2010/11) will not have an "impact on the Authority's ability to meet its public duties".[37] The majority of the savings will come from the deletion of 121 fire-fighter posts which were agreed as part of the efficiency plans set out in the London Safety Plan in March 2010. As such their removal will not reduce the current front-line fire fighting workforce but will mean that the annual underspend on staff costs looks likely to be significantly reduced next year.

The Fire Commissioner told us that while he was pleased to be able to maintain front-line services in 2011/12, LFEPA had commenced work to look at how things can be done differently to deal with particular budget pressures expected from 2013/14 onwards.[38] The Chairman of LFEPA indicated that service provision would be reviewed in 2013 when the next revision of the London Safety Plan is due.[39]

TfL has confirmed to the Committee that it "will continue to operate at the same level of service in 2011/12 on all its operations".[40] The Mayor and the Transport Commissioner have said specifically that bus mileage will be maintained but presumably the commitment to continuing to operate the same level of service on all of its operations is confirmation that service levels on the Underground, Overground, DLR and Tramlink will also be maintained or improved.

While these services have been protected, lower priority programmes face average cuts of 28 per cent. Spending will reduce on local transport schemes (through TfL funding for the boroughs): the electric vehicle programme; road maintenance; and walking, road safety and smarter travel initiatives. TfL has also raised fares and the congestion charge, and intends to charge for parking on the TfL road network, to raise additional revenue.

*Economic development and the activities of the LDA*

In relation to the LDA, the services that Londoners benefit from, either through the programmes it delivers directly or through those delivered by third parties, look like they will be substantially reduced in 2011/12. The Mayor made it clear to the Committee that he believed he had adequate funding available to continue with his priorities, including the Re:New and Re:Fit programmes, and the Mayor's programme to increase sports participation. Beyond these programmes, the bulk of the LDA's current projects will be cut back or ended as a result of reduced government funding for economic development from 2011/12. He said,

> When I had to look at deciding what priorities to pursue with the remains of the LDA funding, I went through all sorts of things that the LDA used to do that I didn't think were absolutely essential for the economic development of London. I am not sure that all of it worked.[41]

It will become clearer later in the year (when the LDA produces its updated targets for 2011/12) exactly what projects the LDA will no longer deliver as a result of the prioritisation of LDA funds towards what the Mayor sees as its core projects.

The lack of investment by the LDA is likely also to result in a loss of third party funding. The LDA uses its minimal funding (relative to London's economy) to lever further funding

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[37] Draft budget, para 5.18
[38] Fire Commissioner speaking at the Budget and Performance Committee, 4 Jan 2011
[39] LFEPA Chairman speaking at the Budget and Performance Committee, 4 Jan 2011
[40] Steve Allen, Managing Director Finance, TfL, speaking at the Budget and Performance Committee, 2 Nov 2010
[41] Boris Johnson, speaking at the Budget and Performance Committee meeting, 11 Jan 2011

from Europe and the private sector. In 2010/11 it managed to attract £241 million of external investment with £493 million of its own funding (an additional 49 per cent).

In relation to skills, the Mayor's influence looks likely to be weakened following government proposals to centralise responsibility for the provision of some economic development activities in the future. The indications are that the London Skills and Employment Board (LSEB), whose Chair is appointed by the Mayor, will lose its statutory responsibility to produce a strategy for employment and skills in London.

The Mayor believes that it is important to take a strategic approach to skills and employment in London. He said the following to the Committee:

> London is very unlike other parts of the UK economy, it has distinct needs, it's a single economic entity, it has very very strong characteristics and needs that need to be dealt with at a strategic level.[42]

He confirmed that there would a London-wide Local Enterprise Partnership (LEP) and it was his intention that the LSEB would incorporated into this new venture. We note, however, that the funding available to LEPs through the new Regional Growth Fund will be minimal (compared to what was administered previously through RDAs) and dependent on bids being made. It is also unclear how much if any of the fund would be allocated to London based on the criteria set out in the Government's white paper.[43]

**The Committee supports the Mayor's ambition to increase his influence over skills and employment in London. With reduced funding at a local level and no statutory powers in the LSEB, this would appear to require a successful London-wide LEP making bids for funding and gaining for London a share of the Regional Growth Fund.**

Further examination of proposals for LEPs is being undertaken by the Assembly's Economic Development, Culture, Sport and Tourism Committee.

*The core GLA*

Plans for financial savings necessitated by an anticipated reduction in the GLA grant were set out in the draft core GLA budget published in November. However, there is limited information available at this stage about how budget reductions will affect programme outputs. The Draft GLA Budget for 2011/12 suggests that, "GLA officers have sought to prioritise administrative savings and have, wherever possible, protected what might be viewed as 'frontline' work with London's communities".[44] Other than ending the funding for school visits to the London Zoo and Wetland Centre, which are described as not being core GLA business, there is no information about GLA services which will be affected as a result of reduced funding in the existing directorates next year.

In addition to continuing to provide the service the GLA provided last year, it will be spending an additional £20 million on economic development activities previously funded by the LDA, although this scale of additional funding will not offset the reduction in funding for LDA activities in 2011/12. Because of the new functions the GLA is taking on and the uncertainty around GLA grants for 2012/13 and beyond, the scale of longer-term reductions in core GLA services cannot be determined from the draft budget.

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[42] Boris Johnson, speaking at the Budget and Performance Committee meeting, 11 Jan 2011
[43] HM Government, Local growth: realising every place's potential, 28 October 2010
[44] Draft GLA budget for 2011-12, para 4.5

**We note the lack to date of a revised GLA Strategic Plan to reflect new expectations around programme outputs. The Committee will assess the service implications of core GLA budget decisions when an updated Strategic Plan is published.**

*Coordinating reform in the longer term*

When we met the Commissioners, Chief Executives and Chairs of the functional bodies there was a consensus that spending reductions will become more difficult to deal with after the Olympic and Paralympics Games and in years three and four of the CSR period.

In relation to policing the Deputy Commissioner told the Committee that the biggest challenge would come in 2013/14.[45] He explained that by then the police service will need to have found a wholly different way of providing support services to the front line in order to find its required savings. The Police Commissioner has said that he is braced for "the biggest cuts in a generation" and that fundamental change to the MPS will be needed immediately after the Olympics.[46] The Chair of the MPA's told us that detailed planning will happen before the Olympics, allowing him to "push the button immediately afterwards".[47]

The Fire and Transport Commissioners have indicated that LFEPA and TfL will face similar requirements for reform towards the second half of the CSR period. For both bodies grant reductions are back-loaded which means that an increasing level of savings will need to be found year-on-year.

The Fire Commissioner explained that, although grant settlements had only been announced for years one and two, the overall reduction of 25 per cent (real terms) over four years gives "plenty of warning" of likely grant levels in years three and four. LFEPA has told us that it is starting to look at longer-term savings requirements and ways in which service delivery can be reform to reduce costs. TfL has already commenced a review into its structures and service delivery, as described above.

If the GLA group's core business is to be maintained or even improved despite reducing budgets, as is the Mayor's intention, a strategic, long-term approach to planning and reform will be required. As such, we welcome these plans in the functional bodies for reform.

When we spoke to the Mayor about the need for fundamental reform he focused on the "big prizes" available from shared services, suggesting that he was expecting £450 million from this programme within the next two years. He acknowledged that savings had been elusive to date. The draft budget shows that in 2011/12 there will be savings of £1 million, leaving the GLA group £449 million of its £450 million savings target to find in 2012/13. We note that seven of the 15 workstreams are still yet to be scoped.

Furthermore, as we noted in our Pre-Budget Report, there are indications that the functional bodies may be progressing with individual organisational change programmes potentially to the detriment of shared service projects.[48] For example, both TfL and the

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[45] MPS Deputy Commissioner speaking at the Budget and Performance Committee meeting, 5 Jan 2011
[46] Various new articles including, 'Met Chief admits he is braced for 'the biggest cuts in a generation', London Evening Standard, 18 October 2010
[47] Kit Malthouse AM, speaking at the Budget and Performance Committee meeting, 7 Dec 2011
[48] Budget and Performance Committee, Pre-Budget Report 2010, 1 December 2010, p. 35

MPS are engaged in major restructurings of their HR service provision so opportunities for total service transfer are a year to 18 months away.[49]

**The Committee understands that due to the scale and complexity of the shared services programme, significant savings will take time to materialise. As such we question how realistic it is to expect that savings of £449 million will be found in 2012/13 given the lack of progress on many of the workstreams to date. As we have said before, if shared services is to play the key role expected of it in allowing core services to be maintained then its development and implementation needs to be further prioritised. The Mayor will need to take a greater role in the programme and use his influence over functional bodies to ensure that his optimistic forecasts for savings in 2012/13 are achieved.**

Recommendation 4
We recommend that in April, following the completion of scoping for all shared service workstreams, the Committee should be provided with the scoping papers, including an update on the level of savings expected from each workstream and the timescales for when they will to be realised.

We will continue to look at the progress of shared services during 2011/12, particularly those workstreams for which the scoping exercise is due to be complete by the end of March.

Beyond shared services the functional bodies themselves are taking forward plans for more fundamental reform. While it may not be appropriate for the Mayor to play a leading role in the development of these plans at this stage, Londoners will want him to ensure that changes to services result in better value for money and ultimately be beneficial for them as service users.

**The level and timing of savings as a result of fundamental reform in each functional body will affect how the Mayor can allocate the funding from the council tax precept over the next few years. This in turn will affect the Mayor's ability to reduce the impact of grant reductions on service levels. Reform plans should therefore not only be considered at a functional body level but also at the centre in terms of the GLA group as a whole.**

## Conclusion

Overall the draft budget indicates that the GLA group's financial position in 2011/12, following a 9 per cent average reduction in government grant (compared to 2010/11), will not result in major cuts to the services which Londoners value the most – police, fire and transport. The MPA and LFEPA have committed to maintaining front-line services in 2011/12 and TfL will continue to operate its transport networks at the capacities and frequencies which had been expected.

Nonetheless, the effects of funding reductions will increasingly be felt. Next year TfL, for example, will not be able to maintain current levels of spending on some lower priority areas – including walking, smarter travel and road safety – and many LDA programmes will be discontinued or substantially scaled back.

[49] Report to the Assembly's Business, Management and Administration Committee, 20 July 2010

Beyond next year things become less certain because less information is available. What is clear is that there will be year-on-year grant cuts, making the preservation of existing service provision more and more challenging as time goes on. There has been a consensus at our meetings that things will become particularly difficult in the period after the Games – the latter two and a half years of the CSR period. We know that plans for fundamental reform of structures and/or service delivery are under development at the Metropolitan Police, the Fire Brigade and Transport for London. It is because of the likely importance of such savings in future GLA group budgets that we conclude reform plans should be considered strategically by the Mayor, not just in isolation by the functional bodies.

The decisions made in the draft budget – the allocation of the council tax freeze reward grant, the reallocation of the precept, finding funds for economic development from the GLA budget – seem to form a reasonable approach for dealing with grant reductions in 2011/12. However, the lack of information about funding and spending plans in future years makes it difficult to assess these decisions as part of a longer-term strategic approach. We have called for additional information to be provided to facilitate such an assessment during the next stage of the budget-setting process.

Finally we have called on the Mayor to become more involved in driving the delivery of savings from shared services across the GLA group. His approach to dealing with longer-term savings requirements is focused on this programme but we have, in this response and previously, questioned the realism of these savings expectations given progress to date.