Response to the Mayor's Draft Consultation Budget 2021-22

Budget and Performance Committee

LONDONASSEMBLY

Budget and Performance Committee

Susan Hall AM
(Chairman)
Conservatives

Tony Devenish AM
Conservatives

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(Deputy Chair)
Labour

Dr Alison Moore AM
Labour

Siân Berry AM
Greens

Caroline Pidgeon
MBE AM
Liberal Democrats

Unmesh Desai AM
Labour

Dr Onkar Sahota AM
Labour

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

Contact us

Gino Brand
Senior Policy Adviser
gino.brand@london.gov.uk

Aoife Nolan
External Relations Officer
aoife.nolan@london.gov.uk

Fiona Bywaters
Committee Services Manager
fiona.bywaters@london.gov.uk

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Foreword

Susan Hall AM
Chairman of the Budget and Performance Committee

Over the past few months, the London Assembly's Budget and Performance Committee has reviewed the Greater London Authority (GLA) Group Budget, which has been shaped by the substantial impact that the COVID-19 pandemic is having on its finances. The London Assembly has a responsibility to ensure that all taxpayers' money is spent in a way that provides the best service for Londoners. Our Committee reviewed the 2021-22 Mayor's Consultation Budget in light of the budget issues facing the GLA. This report raises serious and urgent questions that must be addressed to deal with the big financial challenges facing the Mayor and GLA.

Transport for London (TfL) has been making headlines since the start of the pandemic as we've seen the Mayor and the Government trying to agree funding deals to keep the capital's transport networking running. There have been times during the pandemic where TfL saw a 95 per cent reduction in journeys on the Tube and an 85 per cent reduction in journeys on buses. Even after recovering from these initial lows, ridership remains significantly lower than pre-COVID 19 levels. TfL estimates its overall income for this year will fall by 75 per cent, equating to a loss of over £4 billion for 2020-21. That's a huge budget hole to fill and while a second financial deal has been agreed, it only runs until April 2021. Big questions and decisions are being made now on TfL's long-term financial stability. To rely on fares alone to fund the transport network may no longer be a credible approach to financing. Lives have changed and we do not know if travel in our capital will ever reach the levels that we've seen in recent years again.

Five months after the Mayor's budget guidance was issued, the GLA Core budget submission for 2021-22 was underdeveloped to a degree not seen in previous years, albeit amidst a difficult financial position. Savings of £39 million are being sought, comprising £12 million in corporate savings and £27 million in directorate savings. Tentative proposals have been put forward for the corporate savings; however, no detail at all was presented on the £27 million in directorate savings. This raises a fundamental question as to the extent to which this submission meets its core purpose as a set of GLA budget plans for 2021-22. From our scrutiny of the Mayor's own budget, there are a lot of unanswered questions that need to be addressed. The Mayor has presented the London Assembly with a shopping list for 2021-22 for

£250 million but he only has £211 million to spend. How can we judge if he is spending his money wisely when his choices are not clearly set out?

The impact of COVID-19 has led to changes in the way the Government is funding public services, moving to one-year budgeting rather than a three-year cycle. The Government has promised England and Wales an extra 20,000 police officers, without setting out which forces get how many. The Mayor and the Met Police have promised an extra 6,000 police officers without confirmation of Government funding. All indications are that London's share of the 20,000 will be nearer to 4,500. This raises a question around how the proposed budget for the full extra 6,000 police officers will be funded, as there remains a considerable degree of uncertainty about how the budget gap will be met.

Since the tragic Grenfell Tower fire in 2017, and the critical watchdog report from Her Majesty's Inspectorate of Constabulary and Fire and Rescue Services (HMICFRS) late last year, it is evident that the LFB needs swift change. Under new leadership, Commissioner Andy Roe, has promised to deliver a transformation programme to make the LFB more efficient to better protect Londoners across all areas of the city. However, real change requires money; for training, equipment, and employees.

The LLDC had a highly ambitious capital programme pre-COVID. Since the expectations for real estate development have changed dramatically since the start of the crisis, the risks of the East Bank have become more apparent. Only two years ago the Mayor said it would cost £385 million. Expected costs now exceed £600 million. This raises serious questions on the value for money of the project.

The London Stadium, the former 2012 main Olympic athletics stadium and now home to the Premier League team West Ham United will at best keep costing Londoners at least £8 million to £10 million every year; and that's only provided West Ham United remains in the UK Premier League. This is a significant financial burden on Londoners. We remain disappointed by the lack of progress in securing much needed income from naming rights of the Stadium and other park assets. In light of COVID-19 and the budget issues facing the GLA, the Committee could see where that money would be better spent.

Before the COVID-19 pandemic, our Committee had serious concerns about the Old Oak and Park Royal Development Corporation (OPDC). Despite spending nearly £50 million to date, the Corporation has little to show for it. The north west London site remains broadly the same as five years ago. The concept of the OPDC is a good one. The original plans from 2015 show that the site was going to create 25,500 homes and 65,000 jobs, with excellent transport links. However, as it stands today, little has been done on the ground to bring these new jobs or homes to the area.

The OPDC applied for a £250 million Housing Infrastructure Fund (HIF) grant from the Ministry for Housing, Communities and Local Government (MHCLG), following an announcement in the 2018 Spring Budget. The OPDC was awarded the HIF funding for its proposed plans for north west London. Worryingly, in December 2019, the Committee discovered that the documents which were sent to MHCLG in support of the HIF bid funding referred to a letter of support from a local business which was integral to all of the OPDC's plans. However, this letter did not exist, and the local business did not support OPDC's plans. Given this, should the OPDC continue to be entrusted to deliver such a high-scale project?

Executive Summary

The COVID-19 pandemic has had a significant and sustained impact on TfL's finances. TfL has continued to run almost at full service, despite the reduction in passenger numbers that has resulted in a loss of 75 per cent of its anticipated passenger income in the first half of 2020-21.

The TfL 2021-22 Budget reflects the expected bounce back from COVID-19 with passenger income forecast to increase from £1.8 billion in 2020-21 to £3.3 billion in 2021-22 and on to £4.6 billion in 2022-23. The negotiations with the Government on the future of London's transport system are critical to the future shape of TfL's finances. The recently published 'TfL Independent Review' and its Financial Sustainability submission to Government will also play an important part in determining the future provision of transport services in the capital.

The Elizabeth line has been delayed, partly from the impact of COVID-19, which contributed to a further funding requirement of £1.1 billion. The GLA will borrow a further £825 million to complete the project, which leaves a £275 million challenge.

MOPAC continues to plan for the recruitment of an additional 6,000 officers from the Government's officer growth programme. This is despite growing evidence that London's share of the 20,000 additional officers will be less than 6,000. In September 2019, the Government announced a national campaign to fund and recruit 20,000 new police officers by 2022-23 to be shared among the 43 forces in England and Wales.[1] Based on the initial allocations of the funding which used the existing police funding formula, London should expect a total of 4,563 officers, or about three quarters of the Met's ambition. MOPAC's 2021-22 Budget submission also shows a budget gap growing to £300 million by 2022-23, of which only half can be attributed to its unfunded recruitment plans.

The London Fire Brigade provides vital frontline services to protect the capital's 8.6 million residents. In recent years, the role and presence of the fire service has had renewed significance and complexity, in particular the Grenfell tragedy in 2017 has increased demands on the service. Since this tragic event, and Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services' highly critical report into how LFB operates, it has finally begun a much-needed transformation programme.

However, the COVID-19 pandemic has hampered the London Fire Commissioner's financial capabilities, both from the impact of the pandemic on the fire service itself and on the wider GLA Group's finances. This means that the fire service will be required to make significant savings in this year, and in subsequent years.

This report examines the LFB's overreliance on using reserves to finance budget gaps. The Committee appreciates the use of reserves in the short-term to bridge the financial pressures

[1] National campaign to recruit 20,000 police officers launches today, 5 September 2019

created by COVID-19 without impacting on the ability of the Brigade to keep Londoners safe. However, a continual reliance on reserves risks creating a backlog of savings to be made in subsequent years, and is unsustainable in the long-term, with worrying implications for the medium-term stability of the service and its ability to fully protect London and Londoners.

The Mayor's Consultation Budget was issued before the provisional local government and police financial settlement for 2021-22 was published. This raised the possibility that the Mayor could propose a large increase to the London Council Tax precept for 2021-22, partly to cover the cost of concessionary travel above that funded by Government for the rest of England, and also to take advantage of the £15 increase per Council Tax bill for MOPAC funding allowed in the recent Government Spending Review. The Mayor announced on 8 January 2021 a proposed Council Tax increase of 9.5 per cent. The Mayor's component of the annual Council Tax charge for a Band D household will increase by £31.59, with funding of £15 each for TfL and MOPAC and £1.59 for the London Fire Brigade.[2]

The East Bank is the LLDC's flagship regeneration scheme, which aims to deliver 'one of the world's largest and most ambitious cultural and education districts' across three sites in the Queen Elizabeth Olympic Park. On 5 June 2018, the Mayor announced he was committing £385 million to the East Bank development[3]. At the Budget and Performance Committee meeting on 8 December 2020, the LLDC reported that the expected cost of the project, including the impact of COVID-19, is now £628 million.

Capital income from the LLDC's housing development sites is an important factor in achieving financial sustainability for the project. London real estate prices are in flux as the market adjusts to the pandemic. In September, the Centre for Economics and Business Research forecast that UK house prices may drop as much as 13.8 per cent from 2020 to 2021.[4] The Mayor recently echoed these concerns, suggesting London may be facing an 'existential threat' from the changes to working life caused by the pandemic, and the possible shift out to outer London.[5]

In December 2019, OPDC announced it was abandoning the plans it had been developing for the previous four years for Old Oak North (OON) in favour of a 'more strategic scale of regeneration' in an area referred to as the 'Western Lands'.[6] The new plan has the potential to support delivery of over 20,000 homes and up to 60,000 jobs. The OPDC holds no land, has no capital programme to develop it, and no approved Local Plan to progress its project—three things the OPDC itself has identified "cannot move ahead with its major regeneration plans without."[7] It is vital that the OPDC works with the Planning Inspector to deliver its commitment to have an agreed Local Plan by the end of 2021

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[2] 8 January 2021 Mayor's Press Release https://www.london.gov.uk/press-releases/mayoral/mayor-succeeds-in-limiting-council-tax-increase
[3] 5 June 2018 Mayor's Press Release https://www.london.gov.uk/press-releases/mayoral/mayor-unveils-11bn-vision-for-east-bank
[4] CEBR, Report, September 14 2020
[5] The Guardian, Sadiq Khan: 'There is potentially an existential threat to central London' 22 November 2020
[6] Mayor's 2020-21 Budget
[7] Budget and Performance Committee Meeting 14 October 2020, minutes, page 41, page 25

Recommendations

Transport for London

Recommendation 1

TfL should publish its January 2021 financial sustainability plan submission to Government.

Recommendation 2

TfL should set out clearly how it plans to fund concessionary fares in the Mayor's Final Draft 2021-22 Budget.

Recommendation 3

TfL should continue to work to secure a long term sustainable funding deal with Government.

Recommendation 4

TfL should publish a new target date, in the Mayor's Final Draft 2021-22 Budget, for the delivery of the 10,000 affordable homes that it has promised.

Recommendation 5

TfL and the Mayor to be clear around which of the Independent Financial Review suggestions are being actively pursued.

Recommendation 6

TfL to work with the Government to secure access and to publish the KPMG report.

Recommendation 7

TfL to be clear about what the final expected cost of Crossrail will be.

MOPAC

Recommendation 1

The Committee encourages MOPAC to continue to lobby the Government for longer-term funding settlements for the Met and further funding for police officers in London. However, MOPAC should base its draft 2021-22 Budget on realistic funding expectations.

Recommendation 2

The Mayor should set out how his 1,000 additional officers would be funded in the event of the anticipated Business Rates restructure.

Recommendation 3

MOPAC should be clear in its draft 2021-22 Budget how much of its forecast revenue budget funding gap arises from its assumptions on costs associated with the Government's officer growth programme, and how much can be attributed to other underlying structural pressures.

Recommendation 4

MOPAC should present an updated strategy for its approach to estates and general capital spending, based on appropriate assumptions of police officer recruitment and service transformation.

Recommendation 5

MOPAC should consider alternative revenue streams to generate income in the Mayor's Final Draft 2021-22 Budget.

London Fire Commissioner

Recommendation 1

The Commissioner should demonstrate value for money for senior appointments and maintain the LFB's commitment to its youth-related activities.

Recommendation 2

The LFB should provide a realistic plan, with timescales, on how overspend on overtime will be driven down in the Mayor's Final Draft 2021-22 Budget.

Recommendation 3

The LFB should outline a plan for a sustainable long-term financial strategy that is less reliant on drawing down its reserves in the Mayor's Final Draft 2021-22 Budget.

Recommendation 4

The aim of the GLA Collaboration Group is to "secure further tangible savings through greater collaboration across the GLA Group." The LFC should outline any impact that GLA Group collaboration will have on the LFB's finances in 2021-22.

Recommendation 5

The Committee supports the LFB in its efforts to work with the Government to secure additional funding, however there is no guarantee additional resources will be provided. The LFB must create a contingency plan in case the Government does not provide funding for items such as the LFB's pension allocation for 2021-22. Thereafter, the Government and the LFB must agree a long-term pensions funding settlement.

Recommendation 6

The LFB should outline in the Mayor's Final Draft 2021-22 Budget how it has sufficient resources to fund the delivery of its transformation.

Recommendation 7

The LFB should clarify what tangible benefits the £7.7 million spend on the transformation programme will have for Londoners in the Mayor's Final Draft 2021-22 Budget.

GLA Core

Recommendation 1

The Mayor should clarify how the GLA:Mayor budget will meet its savings target for 2021-22, including details of where those savings will come from and what their impact will be in his 2021-22 Final Draft Budget.

Recommendation 2

The Mayor should issue a corporately verified assessment of the extent to which Mayoral commitments and GLA initiatives have been delivered in full and on time during this Mayoral term prior to the 2021 GLA pre-election period commencing.

London Legacy Development Corporation

Recommendation 1

The LLDC must make demonstrable progress towards securing a naming rights deal for the London Stadium in 2021-22.

Recommendation 2

The LLDC's borrowing must be limited to a level that it is realistically capable of repaying.

Recommendation 3

The LLDC must regain control of the East Bank costs.

Recommendation 4

The LLDC must carefully review the level of capital receipts to ensure that they are realistic and identify any further funding needs.

Recommendation 5

The LLDC must publish its transition plan.

Old Oak and Park Royal Development Corporation

Recommendation 1

The OPDC must work with Network Rail and the Department for Transport to prioritise the agreement for the transfer of public sector land holdings in its 2021-22 Budget.

Recommendation 2

The OPDC must develop and publish an infrastructure plan for development of the 'Western Lands' to identify its funding requirement in its 2021-22 Budget.

Recommendation 3

The OPDC must learn the lessons from its failure to secure funding from its HIF bid and apply these to a bid for funding from the National Home Building Fund.

Recommendation 4

The OPDC must publish a timetable to develop a new credible and sustainable plan with a clearer focus in the short to medium term on Park Royal. The plan should accompany its Final Draft 2021-22 Budget and set out what it can realistically achieve and when.

Recommendation 5

In June 2016 the Mayor of London commissioned the GLA to undertake a review of the strategic direction and work programme of the OPDC. Given recent events, the Mayor should talk to the boroughs involved and consider a review examining if the OPDC should continue in its current form.

Chapter one - Introduction

The GLA Group

London is in the middle of its greatest crisis since the Second World War. The COVID-19 pandemic has brought the city to a standstill. Health services are being pushed to the brink, economic activity has been severely depressed, and Londoners have made countless sacrifices to curtail the staggering human cost of the virus. To overcome the challenges before the capital, it is imperative the Mayor shows decisive leadership and takes control over those activities which fall within his purview.

The Mayor of London has a considerable number of resources at his disposal, in terms of the power that he holds to make decisions that affect the everyday lives of Londoners and particularly in terms of the annual budget, which is central to how the Mayor's authority is exercised. The Mayor's proposed budget for 2021-22 is £19.4 billion. This pays for the Greater London Authority (GLA), which consists of the Mayor's office and the London Assembly (which is tasked with scrutinising the Mayor's activities) and its five functional bodies (known as the GLA Group):

- Transport for London (TfL);
- Mayor's Office for Policing and Crime (MOPAC) – responsible for oversight of the Metropolitan Police Service (MPS);
- London Fire Commissioner (LFC) – responsible for decisions about the London Fire Brigade (LFB);
- London Legacy Development Corporation (LLDC); and
- Old Oak and Park Royal Development Corporation (OPDC).

The COVID-19 pandemic has had a substantial impact on the GLA Group's finances. Major sources of revenue such as Business Rates and Council Tax have been predicted to fall due to the wider adverse economic conditions caused by the pandemic. This will have an inevitable impact on the delivery of vital public services in London – MOPAC alone spends three pounds in every four of the GLA's Council Tax income to police London. The reduction in passenger demand in London's transport network has also added considerable pressure on TfL's finances, causing an income loss of over £4 billion for 2020-21.

The Mayor's 2021-22 Budget

On 26 June 2020, the Mayor published his budget guidance for 2021-22, requiring the GLA Group to deliver in-year savings to the current 2020-21 budgets and to develop the 2021-22 proposed budgets.[8] The Mayor of London has said that the GLA Group is facing a budget

[8] GLA, *The Mayor's Budget Guidance for 2021-22*, 26 June 2020, https://www.london.gov.uk/sites/default/files/mayors_budget_guidance_2021-22_final.pdf

shortfall of up to £493 million over the next two years.

The Mayor's budget guidance set out three potential scenarios with consideration to the impact of the COVID-19 pandemic on the GLA Group's finances. These scenarios are to be used by the GLA Group to meet savings and efficiency targets set out in the guidance. Each scenario identifies a reduction in overall funding over the current financial year 2020-21 and 2021-22. The three scenarios are:

- ***Scenario 1*** *– Council Tax losses only assumed of 7 per cent with Business Rates funding allocations maintained at previously approved levels. £140 million reduction over two years.*
- ***Scenario 2*** *– Funding allocations in line with actual 2020-21 and estimated 2021-22 Government funding baselines. £450 million reduction over two years.*
- ***Scenario 3*** *(The Mayor's current 'best estimate') – Assumed losses of 7 per cent in Council Tax revenues and reductions of 11 per cent in Business Rates income by March 2022. A £493 million reduction over two years.*

The third scenario is the 'reasonable worst-case scenario' and is the basis of the Mayor's public announcement that the GLA Group is facing a budget shortfall of up to £493 million over the next two years, as a result of a loss of Business Rates and Council Tax income caused by COVID-19.[9]

As a result, the Mayor has asked the Group to find as much as £493 million in savings based on an initial analysis of the impact of the pandemic. The Mayor subsequently allocated reserve funding to halve the 2020-21 in-year savings requirements for MOPAC, the LFC, the Assembly and the Mayor's core budget. But savings for this year and next, still amount to £454 million. Of this, £325 million in savings has to be found by the Group in 2021-22 alone.

The Mayor's Consultation Budget for 2021-22 was issued on 15 December 2020 with a closing date for consultation responses of 15 January 2021. It represents the fifth and final set of budget proposals of this mayoral term. The Mayor's Draft Budget and Final Budget will be presented to the Assembly in the weeks following that, so that the Council Tax precept can be agreed by the end of February.

Group funding

The Consultation Budget has been issued in advance of the forthcoming provisional local government and police funding settlements and at a uniquely challenging time for GLA Group funding with income from transport fares and Business Rates under particular threat as a result of COVID-19, but also issues arising over Council Tax revenues for the same reason.

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[9]GLA, *Mayoral press release*, 17 June 2020, https://www.london.gov.uk/press-releases/mayoral/mayor-outlines-almost-500m-cost-of-covid-19

Definitive indications of income in 2021-22 from Business Rates and Council Tax will be available at the end of January. Meeting the budget gap arising from reduced transport fares is the subject of ongoing negotiations with Government. The financial planning horizon in the 2021-22 Budget proposals is therefore shorter than usual at two years (i.e. it covers 2021-22 and 2022-23).

The provisional Local Government Finance Settlement 2021-22 consultation paper which was published on 17 December 2020 stated 'The Mayor of London has already indicated that in order to fund Londoners' free travel concessions more generously than the English level, he may seek to raise the general element of the GLA's Council Tax precept. We await the Mayor's proposals on the GLA referendum principle, as part of the responses to this consultation.' The 31 October agreement made clear the funding of these concessionary elements must be met 'without recourse to additional borrowing, savings, service changes or deferrals'.[10]

This could increase the level of precept in the Mayor's Consultation Budget. In the 16 December Budget and Performance Committee meeting with TfL, the GLA Executive Director of Resources confirmed that a £1 increase in every Council Tax bill would raise £2.8 million. The Mayor announced on 8 January 2021 a proposed Council Tax increase of 9.5 per cent. The Mayor's component of the annual Council Tax charge for a Band D household will increase by £31.59, with funding of £15 for TfL.[11]

Savings and efficiencies

As a result of the funding pressures described above, the savings and efficiencies required across the Group for 2020-21 and 2021-22 stand at the high level of £0.5 billion. This challenging target provides the focus of much of the budget work undertaken across the Group.

Conversely, there is considerable uncertainty around the level of receipts from Business Rates and Council Tax, and while the Mayor has clearly set out his assumptions in his budget guidance, there is a potential upside from higher than anticipated Business Rates and Council Tax.

The London Assembly Budget and Performance Committee is tasked with scrutinising the Mayor's budget proposals to ensure that public money is used efficiently and effectively. The Committee's work informs the work of the London Assembly more widely, with the Assembly itself holding the power to amend the Mayor's annual budget with a two-thirds majority.

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[10] TfL 31 October Funding Settlement transport-for-london-settlement-letter.pdf
[11] 8 January 2021 Mayor's Press Release https://www.london.gov.uk/press-releases/mayoral/mayor-succeeds-in-limiting-council-tax-increase

> *"No organisation could absorb a shortfall on this scale, and while I have prudently put aside significant sums since 2016 to meet unexpected risks, the scale of the challenge is far beyond what any Mayor could have reasonably prepared for."*
>
> ***Sadiq Khan, Mayor of London***
> ***Mayor's Budget Guidance 2021-22***

To this end, the Budget and Performance Committee has been reviewing the GLA Group's finances over the past two months. Since November, the Committee has held five meetings with executive officers and leaders of the five functional bodies, culminating in a final meeting with the Mayor himself.

From TfL's reliance on Government funding to the OPDC's future viability, the Committee's scrutiny identified the financial challenges facing the GLA Group and how these challenges could be addressed to ensure that public money is being spent where it is most needed. The Committee also examined what action the functional bodies are taking to plug the budget gap, whether this was sustainable in the long term, and whether it provided value for money for Londoners.

This report is a summary of the Committee's findings and raises serious and urgent questions about the future of the GLA Group. We urge the Mayor to take forward the issues identified here and implement the necessary measures to ensure the financial sustainability of the GLA Group so that Londoners can continue to receive vital public services during this difficult time.

Chapter two – Transport for London

Recommendation 1

TfL should publish its January 2021 financial sustainability plan submission to Government.

Recommendation 2

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Recommendation 3

TfL should continue to work to secure a long term sustainable funding deal with Government.

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TfL should publish a new target date, in the Mayor's Final Draft 2021-22 Budget, for the delivery of the 10,000 affordable homes that it has promised.

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TfL and the Mayor to be clear around which of the Independent Financial Review suggestions are being actively pursued.

Recommendation 6

TfL to work with the Government to secure access and to publish the KPMG report.

Recommendation 7

TfL to be clear about what the final expected cost of Crossrail will be.

Impact of COVID-19

The COVID-19 pandemic has had a significant and sustained impact on TfL's finances. TfL has continued to run almost at full service, despite the reduction in passengers that has resulted in the anticipated loss of 70 per cent of its passenger income in 2020-21.[12] TfL reduced costs by pausing some of its major project activities on over 300 construction projects and furloughing 7,000 of its staff through the use of the Government's Coronavirus Job Retention Scheme.

[12] TfL 2021-22 Budget P32 http://content.tfl.gov.uk/board-20201209-agenda-supplementary-finance.pdf

In April 2020, TfL submitted an Emergency Budget to Government.[13] The budget identified a shortfall of £1.9 billion in TfL's funding, which could not be met other than through Government support. On 14 May 2020, TfL reached an agreement with the Government on a funding and financing package of £1.6 billion to cover the period from 1 April 2020 to 17 October 2020. The agreement came with a number of conditions including maximising service levels, the reintroduction of the London Congestion Charge, Low Emission Zone (LEZ) and Ultra Low Emission Zone (ULEZ), and temporary suspension of free travel for Freedom Pass and 60 plus card holders during peak hours and the suspension of free travel for under 18s.

On 31 October, TfL agreed a second extraordinary funding and financing support package with the Government, worth an initial £1 billion. This consists of £0.9 billion for operating and £0.1 billion for capital, and increases depending on the actual level of passenger income.[14] In total TfL has assumed total revenue support grant of £2.6 billion from Government for 2020-21.[15] The TfL Q2 2020-21 Quarterly Performance Report shows Government funding for the first half of the year at £913 million, which implies that TfL's funding expectation for the second half of the 2020-21 from this settlement is £1.7 billion.[16]

The package requires TfL to make £160 million of savings this financial year and the Mayor to raise additional income to provide concessions for Londoners which are not available in most of England (i.e. the 60 plus card and zip cards for young Londoners).

On 11 December 2020, an independent review into TfL's finances authored by TC Chew, Stephen Glaister CBE, Bridget Rosewell CBE and Sir Jonathan Taylor was published. The review considers TfL's long term future funding and financing options. The Government has also commissioned a parallel review conducted by KPMG. The review has not been published and TfL officers have only been given access to a redacted version.

Income assumptions

Since mid-March, the Government has introduced both national and local lockdowns to manage the spread of the virus. At its lowest, TfL saw a 95 per cent reduction in journeys on the Tube and an 85 percent reduction in journeys on buses, despite running an almost full service. Since May, ridership has slowly recovered, but passenger volumes for both buses and the Tube continue to be well below pre-pandemic levels.

The decline in passenger volumes has had an immediate impact on TfL's income, with TfL's budget submission for 2021-22 estimating that its anticipated passenger income will be reduced by over 70 per cent in 2020-21 from £5 billion to £1.5 billion.[17]

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[13] TfL *Finance Committee, Agenda and Papers – 12 May 2020*, http://content.tfl.gov.uk/fincom-20200512-agenda-and-papers-public.pdf, pp. 5-8. Full Emergency Budget outlined at Appendix 1 of the 2 June 2020 TfL Board papers, http://content.tfl.gov.uk/board-20200602-agenda-and-papers-supplentary.pdf, pp. 37-55.
[14] 31 October TfL funding agreement TfL settlement-letter.pdf
[15] TfL 2021-22 Budget P81 http://content.tfl.gov.uk/board-20201209-agenda-supplementary-finance.pdf
[16] TfL Q2 2020-21 Quarterly Performance Report P5 http://content.tfl.gov.uk/qpr-q2-2020-21.pdf
[17] TfL, *Budget Submission 2021-22, http://content.tfl.gov.uk/board-20201209-agenda-supplementary-finance.pdf*

TfL's budget submission estimates that ridership will only return to 80 per cent of pre-pandemic forecasts by the end of 2021-22 and throughout 2022-23. In 2021-22, TfL expects ridership to continue increasing as COVID-19 restrictions are eased, but only to 60 per cent on average compared to the levels envisaged in the December 2019 Business Plan (rising to 80 per cent by March 2022).

This means that although passenger income will rise to £3.3 billion in 2021-22 and £4.6 billion in 2022-23, it is still 39 per cent (£2.1 billion) and 23 per cent (£1.4 billion) less respectively than forecast in the December 2019 Business Plan.

As Table 1 below shows, the budget submission includes a range of income assumptions. One assumption is that from January 2021, fares will rise by the July 2020 retail price index plus 1 per cent (total 2.6 per cent). This level of fare rise is assumed to continue throughout the life of the plan. The date of the fares increase has been postponed to 1 March 2021 in line with the delay to the annual National Rail fares increase.

Income assumptions also include current temporary changes to the Congestion Charge being retained for the next two years. This was confirmed by TfL's Director of Finance for Surface Transport and Major Projects, Patrick Doig, at the Budget and Performance Committee meeting on 16 December. At the same meeting, the Deputy Mayor for Transport, Heidi Alexander, indicated that the Mayor would have to go through a review and consultation process in the next financial year if he chose to make the changes permanent.

Also included is an expansion of ULEZ up to the North and South Circular roads in October 2021. In March 2021, TfL plans to toughen LEZ standards for HGVs, buses and coaches to Euro VI.

Table 1: Key assumptions behind TfL's income streams in its Budget Submission for 2021-22

	Budget Submission 2021-22: Assumptions
Passenger Income	• Average passenger demand for 2021-22 is 60% compared to 2019 Business Plan (80% of Business Plan by March 2022), average demand is 80% compared to the 2019 Business Plan in 2022-23 • Fares rise by RPI+1% from January 2021 and then same uplift again each year • Freedom Pass and 60+ Oyster removed from AM peak continues • Freedom Pass income follows current agreement with London Councils using two-year demand average
Other Operating Income	• Maintain current congestion charge days and hours as long as needed (value of £140m increase for 2021-22) including suspension of residents' discount to new applications • LEZ tightening March 2021, ULEZ in October 2021 • Latest ULEX assumptions include higher daily unique vehicles

LU/Rail Service Levels	• Potential restart dates on Night Tube and Waterloo & City line being kept under review • LU service reduction package of minor cuts to some weekend and off-peak services • Elizabeth line stage 3 opening assumed in first half of 2022
Bus Service Levels	• Overall network level operated km remains stable with services continuing to match changes in demand – e.g. between central/inner and outer London
Financial Assumptions	• Business Rates retention reduced by £200 million per annum based on GLA Budget guidance • Longer term RPI returns to 3.1% from 2022-23 (OBR forecast) • No new borrowing assumed from 2021-22 and throughout the plan period

Second funding agreement

In July 2020, TfL published a Revised Budget, which highlighted its requirement for further Government support from October 2020 to March 2022. TfL projected that on top of the £1.033 billion it was expecting to receive from Government in the first funding agreement, it would need a further £1.832 billion to continue operations until March 2021 and then an additional £2.940 billion to keep TfL funded until the end of the 2021-22 financial year. In total, the Revised Budget forecast that TfL would need £5.8 billion of Government funding to maintain services until March 2022.

The Revised Budget formed the basis of discussions between TfL and the Government on a second bailout package. On 31 October, TfL agreed a second Extraordinary Funding and Financing Agreement to cover the period to March 2021. This agreement replaces the previous funding package. The period for this funding agreement is 18 October 2020 until 31 March 2021 (the H2 Funding Period).

There are a number of notable conditions in the letter. These include:

- A requirement for TfL to produce, by 11 January 2021, a single, comprehensive management plan with options as to how financial sustainability will be achieved by April 2023. This plan must include, but is not limited to:
    I. A review of TfL's liquidity position, and review of level of reserves that is appropriate for the risks that TfL faces in the short, medium and long term; and
    II. A review of TfL's commercial development activities with the aim of maximising its use to aid future sustainability, subject to near term affordability.
- For TfL/the Mayor to deliver £160 million of additional savings, work with the Government led expert review on the possible implementation of driverless trains and commit to an RPI+1 per cent fares increase in January 2021.[18]

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[18] The fares increase was subsequently delayed to March 2021. Evening Standard 16 December tube-bus-fare-london

- Any concessions not available nationally (i.e. free travel for all Londoners aged under 18 and 60-65) must be met by TfL/the Mayor and not through Government funding. TfL and the Mayor have proposed that this could potentially include proposals to maintain the Congestion Charging changes implemented in June 2020, subject to consultation and due process; and / or by an increase to the existing TfL element of the GLA Council Tax precept from 1 April 2021 provided the Government has agreed to take all the necessary steps to enable such a precept increase, subject to approval of the House of Commons. TfL/the Mayor will submit their proposals, by 11 January 2021, alongside the financial sustainability plan.

At the 16 December Budget and Performance Committee meeting, Deputy Mayor for Transport Heidi Alexander confirmed that the Mayor would retain concessionary fares in London but had not yet made a decision about whether they would be financed through a rise in Council Tax or from current changes to the Congestion Charge being extended. This, the Deputy Mayor stated, would be clarified in the financial sustainability plan that TfL was due to present to the Government on 11 January 2021. The Mayor announced on 8 January 2021 a proposed Council Tax increase of 9.5 per cent. The Mayor's component of the annual Council Tax charge for a Band D household is proposed to increase by £31.59, including funding of £15 for TfL.

At the 5 January Budget and Performance Committee meeting, the Mayor explained that based on 2018-19 levels of ridership, the total cost of TfL's concessionary fares was around £346 million, and of this, around £125 million was in respect of concessions not available nationally.

Recommendation 1 TfL should publish its January 2021 financial sustainability plan submission to Government.

Recommendation 2: TfL should set out clearly how it plans to fund concessionary fares in the Mayor's Final Draft 2021-22 Budget.

In the same meeting, the Commissioner Andy Byford, indicated that TfL had accepted a shorter, 6-month deal with the Government with the expectation that a longer-term sustainable financial deal could be achieved next year. The Commissioner stated these discussions had now started. It is not clear what such a deal will look like, but TfL's Independent Financial Review (discussed below) could play a significant role.

Recommendation 3: TfL should continue work to secure a long-term sustainable funding deal with Government.

Capital programme

TfL's budget submission includes a 20-year capital strategy and is intended to complement its Comprehensive Spending Review (CSR). The CSR was cancelled this year and replaced by a one-year spending round. TfL states that it continues "to make the case to government for confirmed capital funding [...] we are unable to commit to long-term projects without long-term certainty of funding, which we do not currently have."

TfL's CSR submission was published in September 2020 and states that TfL's long-term capital plan prioritises asset renewals, targeting replacements at the end of design life. Within TfL's CSR submission, the cost of renewing core assets such as maintaining station escalators, replacing train fleets and bridge works will amount to around £1.5 billion.

At the 16 December Budget and Performance Committee, the Commissioner reiterated that the CSR submission was not a "shopping list" and was based on maintaining a state of good repair for TfL's core assets. In the same meeting, TfL's Chief Finance Officer, Simon Kilonback, stated that the submission was based on meeting the Government's strategic objectives around the decarbonisation of public transport, which were aligned with the objectives set out in the Mayor's Transport Strategy.

Other schemes in the package include:

- Piccadilly line signalling replacement and Holborn station upgrade - this would cost £2.5 billion.
- Higher capacity Jubilee line fleet – this would cost around £1.9 billion plus enabling works.
- Bus electrification by 2030 - this would cost £1 billion to 2030; the Chief Financial Officer, Simon Kilonback, stated that this would essentially accelerate the decarbonisation of the bus fleet from 2037 to 2030.
- An investment of £350 million to deliver between 2,300 to 4,100 rapid charge points and between 33,700 to 47,500 slow-to fast charge points by 2025.
- The development of a central London Zero Emission Zone - this would require £5 million.
- Adding new accessible stations – costs of this are scalable at different levels.
- Increasing frequency on the Elizabeth line – this could cost £0.5-£1 billion.
- DLR extension to Thamesmead – this would cost around £800 million.

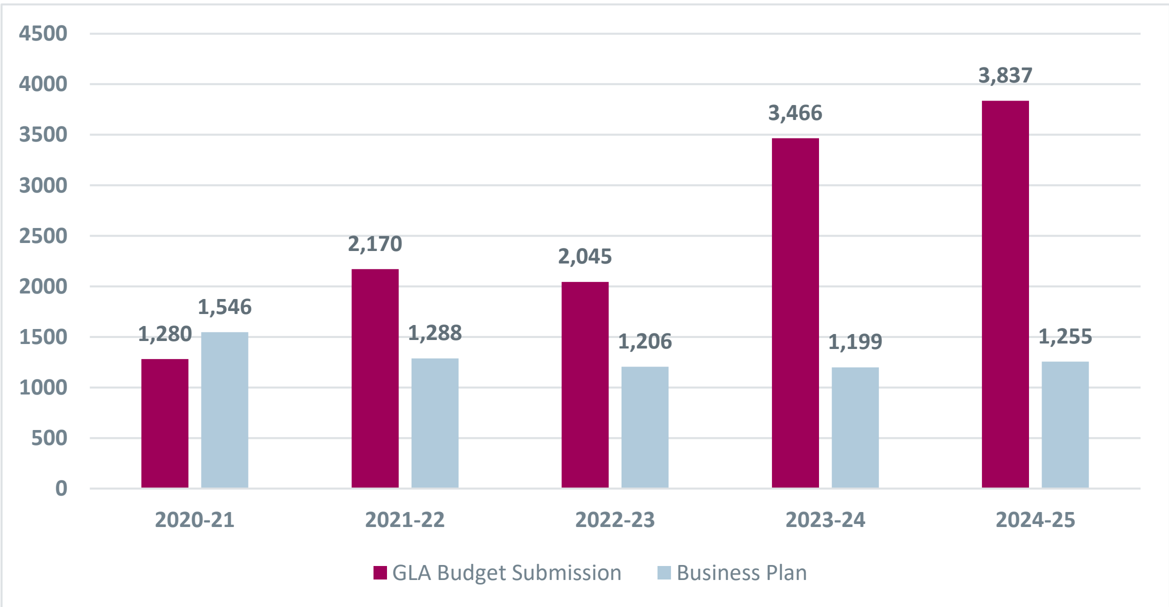
- Delivering housing for London – includes West London Orbital, North Action and Canning Town station upgrades and investment for the Growth Fund – the immediate cost would be nil. The first tranche would be £350 million, and the second and third tranche would be £200 million each.
- Camden Town and Northern line separation – this would cost £0.6-£1.3 billion.
- TfL ask for an investment of £3.4 billion to 2030 to fully deliver projects that enable more walking and cycling and improve bus services across London.
- To support the zero-emission fleet, TfL will need to spend £300 million on power upgrades and charging infrastructure. In addition, accelerating conversion to 2030 will increase operating costs by £700 million up to 2036-37, owing to the difference in cost between conventional and electric buses, net of fuel savings.

Capital funding

As Figure 1 below highlights, TfL's capital expenditure is set to increase compared to the expenditure set out in the 2019 December Business Plan (not including Crossrail investment) over the same period. Funding for this will largely come from capital receipts, Retained Business Rates and will, in 2023-24 and 2024-25, be funded from an extraordinary capital grant from the Government instead of borrowing, subject to the level of future funding to be agreed with Government.

In the same period, TfL's capital receipts are set to be higher than in previous years (with the exception of 2018-19 which was boosted by the sale and leaseback of the Elizabeth line trains).

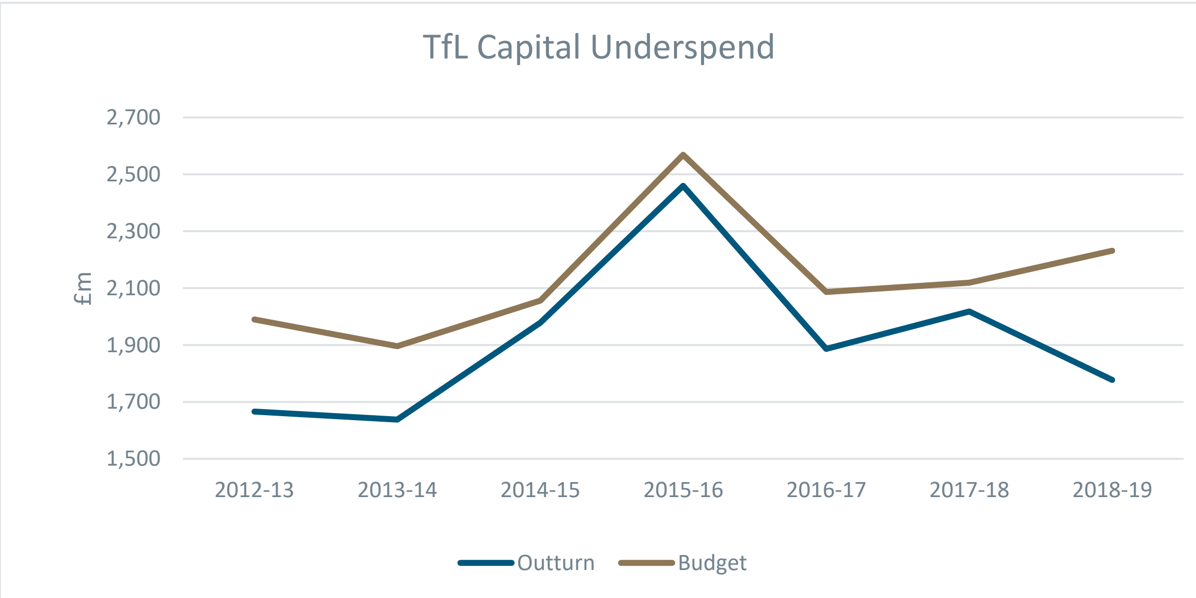
Figure 1: TfL's capital expenditure is set to increase higher than the levels set out in the 2019 December Business Plan



There are risks around whether the level of capital receipts required to fund this level of expenditure will be realised; since 2016 TfL has under-recovered anticipated capital receipts by 7-15 per cent. There are further risks around whether an organisation, recovering from a huge financial shock, relying on Government support and required to make substantial savings, will be able to deliver an enlarged capital programme. At the 16 December Budget and Performance Committee meeting, the Commissioner stated that this was an area that was "subject to sudden vagaries" and that TfL was proceeding "carefully" to ensure that it receives these receipts.

As Figure 2 highlights, TfL has consistently underspent its capital budget, indicating that it may have a systemic issue with delivery. The Crossrail project has shown that it is not unusual in infrastructure delivery for there to be an overly optimistic culture. This can result in plans and budgets being set that are consistently too ambitious to be achieved. At the 16 December Budget and Performance Committee meeting, TfL CFO Simon Kilonback acknowledged that TfL has underspent in the past and needed to improve its delivery capability.

Figure 2: TfL has consistently underspent against its capital budget



The Government has recognised the benefit of long-term funding arrangements for transport infrastructure. Both the National Railway Network and Strategic Road Network are funded through multi-year funding plans for Highways England and Network Rail. TfL would also be helped by a longer term capital investment settlement.

Property portfolio

A key strategy to generating funding for TfL's capital plan includes maximising income from its property development business. TfL states that in 2021-22 it will bring housing projects through planning and invest in property assets. These, TfL believes, have the potential to generate significant ongoing revenue streams or reduce TfL's cost base.

However, a recent LBC radio investigation found that since 2016, TfL has only built 15 per cent of the 10,000 affordable homes it pledged.[19] When questioned about TfL's homes programme at the 16 December Budget and Performance Committee meeting, the Commissioner stated that TfL would not be able to achieve the original start date of 10,000 homes by March 2021 due to the COVID-19 pandemic and that a new start date would be confirmed once TfL has received funding certainty from Government.

Recommendation 4: TfL should publish a new target date, in the Mayor's Final Draft 2021-22 Budget, for the delivery of the 10,000 affordable homes that it has promised.

Furlough scheme

To further alleviate costs, TfL used the Government's Coronavirus Job Retention Scheme to furlough 7,000 of its back-office staff whose work was reduced or paused as a result of the pandemic. The furloughed workers remained on TfL's payroll and TfL accessed the Government scheme to claim a reimbursement of 80 per cent of their salaries, saving TfL, but not the taxpayer, an estimated £15.8 million every four weeks. TfL paid the remaining 20 per cent to ensure staff received full pay during their furlough period.

Given that TfL is reliant on the Government for emergency funding, there is confusion around why the furlough scheme was used in the first instance when, for the same cost to the Government, these workers could have continued working.

At the London Assembly's Plenary meeting on 10 September, Simon Kilonback, the TfL CFO, stated that following the resumption of full services and the restart of project delivery the number of employees furloughed had reduced from the initial 7,000 to around 3,000. These, he suggested, would include some who had been shielding and home schooling. He informed the Assembly that £50 million had been received from the Government to fund the employees being furloughed. Critically, the CFO stated that it was a Government requirement that TfL used the furlough scheme.[20] The Mayor confirmed this in the Budget and Performance meeting on 22 October, when he stated that the DfT had written to TfL on 20 April instructing TfL to use the Furlough scheme. The Committee requested to see a copy of this letter and found that it stated that 'both TfL and its supply chain will be able to benefit from the Coronavirus Job Retention Scheme'. This appears to fall short of an instruction, but could be considered an invitation.

[19] LBC, *TfL have built just 15% of the 10,000 affordable homes they pledged*, 21 August 2010, https://www.lbc.co.uk/news/tfl-build-just-15-of-10-000-pledged-affordable-homes/
[20] London Assembly, *Plenary Meeting*, 10 September 2020 https://www.london.gov.uk/london-assembly-plenary-2020-09-10

At the 16 December Budget and Performance Committee meeting the TfL CFO stated that TfL were "heavily encouraged" to use the scheme by senior officials and Government Ministers. At the same meeting, he confirmed that TfL was saving £60 million from the use of the scheme.

TfL Independent Financial Review

On 11 December 2020 TfL published the Independent Financial Review. The review was commissioned by TfL and the Mayor in July. The report sets out TfL's financial position and establishes a long-term funding gap before assessing the following options:

- Operating costs: service reductions – these would predominantly be the reduction of bus routes, this option is not recommended by the report.
- Operating costs: further efficiencies – the report calls for reform of the TfL pension scheme.
- Funding from transport users – this suggests removing the 60+ pass and low fares increases, devolution of monies raised through Vehicle Excise Duty (VED) to London and expansion of road user charging including introduction of a boundary charge.
- Asset sales and property development - asset sales are unlikely to make a useful contribution and a fire sale of assets looks a very poor option in the current climate.
- Reducing asset and capital investment – it is not believed that medium-term savings are possible on renewals and asset investment. A reduction in capital investment is not recommended.
- Taxation - public transport funding should reflect the wider economic benefits generated by the public transport system. A Council Tax precept could raise revenue from residential properties. An employment levy is not recommended. A VAT supplement could capture value from sales generated in London. A supplement for Business Rates is not recommended.
- Government grant - access to Government investment grants for major projects would be essential.
- Debt measures – new borrowing is not recommended. TfL may want to borrow in the future to pay for projects that show a monetised return.
- Other funding – project specific e.g. Business Rate Supplement or Mayoral Community Infrastructure Levy.

The Government has also commissioned a parallel review conducted by KPMG. The review has not been published and TfL officers have only been given access to a redacted version.

Recommendation 5: TfL and the Mayor to be clear around which of the Independent Financial Review suggestions are being actively pursued.

Recommendation 6: TfL to work with the Government to secure access and to publish the KPMG report.

Crossrail

Prior to the pandemic, TfL's finances were dominated by constant delays to the delivery of the Elizabeth line, a major new railway for London and the South East. The COVID-19 pandemic has led to further delays, in part due to a pause in construction and due to social distancing requirements on building sites. It was originally expected to be delivered in 2018.

On 21 August 2020, Crossrail Limited announced that its latest cost forecasts indicated a further £1.1 billion was required to complete the project. This replaced the £400 million to £650 million announced back in November 2019 and is in addition to the £2.15 billion original funding top up agreed. The line is now forecast to be open in the first half of 2022.

On 30 November 2020 a funding deal for £825 million of the £1.1 billion was reached. The GLA will borrow the additional £825 million which will be repaid using the Mayoral Community Infrastructure Levy and Business Rate supplement.

At the Budget and Performance Committee meeting on 16 December, the Commissioner committed to no further delays or further call on public funds, but said that this was based on the project being given £1.1 billion in funding. He went on to say that the £825 million received would be a challenge and that there was an understanding with DfT that an additional £275 million could potentially be required.

In the same meeting, the GLA's Executive Director of Resources, David Gallie, stated that the £825 million borrowing "maxes out" the GLA's ability to borrow from the Business Rate Supplement and the Mayoral Community Infrastructure Levy. These are set to last until 2041 and 2043 respectively. He also stated that this source of funding was now exhausted and could not be used for other transport schemes. The Mayor confirmed at the Budget and Performance Committee meeting on 5 January 2021 that after the £825 million there was "nowhere else to go… the Government would need to step in."

Recommendation 7: TfL to clarify in the Mayor's Final Draft 2021-22 Budget what the final expected cost of Crossrail will be.

Chapter three - MOPAC

Recommendation 1

The Committee encourages MOPAC to continue to lobby the Government for *longer-term funding settlements for the Met and* further funding for police officers in London. However, MOPAC should base its draft 2021-22 Budget on realistic funding expectations.

Recommendation 2

The Mayor should set out how his 1,000 additional officers would be funded in the event of the anticipated Business Rates restructure.

Recommendation 3

MOPAC should be clear in its draft 2021-22 Budget how much of its forecast revenue budget funding gap arises from its assumptions on costs associated with the Government's officer growth programme, and how much can be attributed to other underlying structural pressures.

Recommendation 4

MOPAC should present an updated strategy for its approach to estates and general capital spending, based on appropriate assumptions of police officer recruitment and service transformation.

Recommendation 5

MOPAC should consider alternative revenue streams to generate income in the Mayor's Final Draft 2021-22 Budget.

Introduction

MOPAC has a net revenue budget of just over £3.5 billion. The budget primarily covers the operating costs of the MPS, the policing service for London, but also includes provision for MOPAC's own commissioning and running costs. MOPAC, a Mayoral body, sets the direction and budget for the MPS. Alongside its community safety role, the MPS is focused, it says, on delivering an ambitious organisational transformation programme based around greater efficiency and modernisation of working practices.

Financial position

The Mayor initially asked MOPAC to find £45 million of savings for 2020-21 based on a reasonable worst-case scenario assessment of the loss of Business Rates and Council Tax income caused by COVID-19. The Mayor subsequently committed to provide MOPAC with access to business rates reserves to reduce this saving by half. However, this still means MOPAC must deliver up to £22.75 million[21] in-year savings for 2020-21, as well as up to £63.8 million in 2021-22.[22]

In November 2020, MOPAC published a budget submission for 2021-22. The Budget and Performance Committee examined this submission in a meeting on 10 December 2020. The next section highlights some of the issues within the budget that could potentially impact MOPAC's financial sustainability going forward.

Budget Submission for 2021-22

Police Officer numbers

In September 2019, the Government announced a national campaign to fund and recruit 20,000 new police officers by 2022-23 to be shared among the 43 forces in England and Wales.[23] It was expected that, nationally, 6,000 police officers would be recruited by 2021, 8,000 more by 2022 and the final additional 6,000 by 2023. The Assembly called for 5,000 of the officers to be allocated to London; the Commissioner and Mayor have since called for 6,000,[24] arguing that London has higher demands for policing given its crime challenges.[25] This would equate to an almost 20 per cent increase in force numbers (bringing the total to 37,000).

The 2019 Spending Review allocated £750 million in funding for 6,000 of these police officers across England and Wales and the MPS received funding for 1,369 additional officers in 2020-21. On 25 November, the 2020 Spending Review was published, with the Chancellor announcing £400 million in funding for a total of 6,000 additional police officers; this was fewer than the 8,000 previously expected and just over half of the amount of money received for the same level of officers in 2020-21.[26]

At its 22 September meeting, the Budget and Performance Committee heard that, without funding from the Government, MOPAC is unlikely to be able to afford the full level of officers included in its budget. At the 10 December Budget and Performance Committee meeting, Chief of Corporate Services, MPS, Robin Wilkinson OBE confirmed to the Committee that MOPAC "were allocated our funding formula share of the first 6,000, and regrettably every indication that we are getting from officials that we are speaking to in the Home Office and elsewhere at the moment is that that will apply to the second year allocation as well. We will get, I think, a funding formula share rather than the greater share that we think we need to keep London safe."[27] In the same meeting, the Deputy Mayor for Policing and Crime, Sophie Linden, implied

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[21] The Mayor announced on 17 September 2020 the creation of a new Group reserve to be held by the GLA totalling £41.5 million to fund a 50 per cent reduction in the initially set GLA: Assembly, GLA: Mayor, LFC and MOPAC 2020-21 savings targets in case they are not achievable through increases in income in 2022-23 and 2023-24.
[22] Mayor's Budget Guidance 2021-22, page 10-11
[23] National campaign to recruit 20,000 police officers launches today, 5 September 2019
[24] Assembly Motion 6 February 2020 police-forces-need-assurance-on-officer-numbers
[25] https://www.standard.co.uk/news/london/cressida-dick-i-want-6-000-of-pm-s-new-20-000-police-officers-in-london-a4223836.html
[26] Gov.uk, Spending Review 2020, published 25 November 2020
[27] Budget and Performance Committee meeting 10 December 2020, Minutes, page 5

that MOPAC has been budgeting based on desired operational policing requirement, rather than expected, financial outcomes from the Government. She told the Committee that "for the next financial year, when we set the budget, we will know the numbers [...] and therefore that will be very clear for next financial year. We will have to set the budget with the numbers we are given. Going forward, I think we will do what we have done for the last couple of years, this is what the Commissioner thinks London needs operationally."[28]

Despite the lack of certainty over Government funding for these officers, MOPAC's budget submission for 2021-22 is based on recruiting the 6,000 police officers by 2023. The proposals assume that 2,646 additional officers will be recruited in 2021-22 and that additional funding of £142 million will be made available. For 2022-23, the budget submission assumes that an additional 1,985 officers will be recruited but does not assume that Government funding will be available at this stage. This leaves MOPAC with a significant funding gap of £301.4 million in 2022-23, although only £168.4 million of this is due to the additional funding requirement for the officer uplift and £133.1 million (44 per cent of the total) is due to a structural funding gap; i.e. the base budget is underfunded to that degree.

An additional £15.8 million of funding was originally made available by the Mayor for the recruitment of an additional 600 officers in the period from 2020 to 2022. This was to facilitate recruitment towards a budgeted headcount of 33,000 by the end of 2020-21. The Mayor has indicated that MOPAC can set this £15.8 million aside in earmarked reserves to fund the 2020-21 savings targets. The Mayor has also set aside funding for his own allocation of a further 1,000 police officers on top of the Government's provision. This appears in the Metropolitan Police budget as a £59.3 million funding figure from an earmarked Business Rates reserve for both 2021-22 and 2022-23. Even after this provision, there is still a funding gap for each of those years.

This reserve was set up by the Mayor in January 2019. At that stage there was expected to be a full reset of the Business Rates retention system. It was also considered highly likely that at the same time reforms to the Business Rates retention system would be made which would result in a two-year time lag in the receipt of Business Rates growth.[29] The reserve was intended to fund an additional 1,000 officers during this time lag. So if, as seems entirely possible, Business Rates are restructured post the COVID-19 pandemic, it raises a question as to the financial sustainability of the Mayor's additional 1,000 police officers. The Mayor has recognised this issue and has tasked City Hall officials to work on a plan on how his reserves could be used to help protect frontline policing services now and in the years ahead.[30]

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[28] Budget and Performance Committee 10 December Transcript
[29] Mayor's 2019-20 Draft Budget finaldraftbudget_-_part_1_mayorsstatement_2019-20_final
[30] Mayor's press release 26 June 2020 mayor-sets-out-plan-to-deliver-500m-savings

Recommendation 1: The Committee encourages MOPAC to continue to lobby the Government for *longer-term funding settlements for the Met and* further funding for police officers in London. However, MOPAC should base its draft 2021-22 Budget on realistic funding expectations.

Recommendation: 2: The Mayor should set out how his 1,000 additional officers would be funded in the event of the anticipated Business Rates restructure.

Budget gap

While it is anticipated that MOPAC will deliver a balanced budget in February 2021, its budget submission shows a £37 million budget gap for 2021-22. By 2022-23 the budget gap rises to as much as £301.4 million. Of this, £168.4 million relates to an unfunded officer uplift, while the remaining £133.1 million is the result of a structural budget gap.

There are uncertainties around whether further savings can be made to close this gap. Since 2013, the MPS has achieved gross savings of £886 million between 2013-14 and 2019-20. However, unsurprisingly, the rate at which savings can continue to be made is slowing. In 2019-20, the MPS fell short by £8.8 million, delivering £26.3 million of savings against a budgeted savings target of £35.1 million. The MPS' struggle to meet these savings targets is a concern given the additional savings now required both this financial year and, more significantly, next year.

At the 10 December Budget and Performance Committee meeting, Robin Wilkinson OBE, Chief of Corporate Services, MPS, stated that the £37 million figure "almost certainly will be a different figure when the final budget comes through." He did not provide the Committee with specific proposals to reduce the gap, instead stating that MOPAC was "running a priority-based budgeting process which is a detailed look at all of our services from the bottom upwards, looking at areas for further efficiency savings where we have service delivery choices." The budget submission states that while the Mayor and the MPS will "continue to seek efficiency improvements and savings […] it would not be possible to close this budget gap by delivering yet more savings and efficiencies without reducing officer and staffing numbers."

The Met receives a specific National and International Capital City (NICC) grant, which has been a bone of contention for a number of years. The Met and the Home Office agree that the Government has underfunded this grant for some time, to the tune of at least £112 million a year (the Met maintain the underfunding is about £160 million a year).[31] [32] While this underfunding persists, the Met effectively subsidises counter-terrorism, policing of demonstrations and other responsibilities that come with policing a major city and this impacts neighbourhood policing.

At the 5 January Budget and Performance Committee meeting the Committee heard that the Met had incurred £50 million of COVID related costs, of which only £17 million had been refunded by Government and that the funding of the remaining £33 million along with an increase in the NICC grant would help address the £133 million budget gap in 2022-23 which does not arise from the unfunded officer growth programme.

Recommendation 3: MOPAC should be clear in its draft 2021-22 Budget how much of its forecast revenue budget funding gap arises from its assumptions on costs associated with the Government's officer growth programme, and how much can be attributed to other underlying structural pressures.

Capital programme

The MPS' capital programme amounts to £1.6 billion between 2020-21 and 2024-25. The capital programme ensures that the MPS can invest in state-of-the-art facilities and technology, and in theory, facilitates the large-scale transformation required to ensure that the MPS remains a modern, agile and responsive public service. This transformation is also intended to support the delivery of the substantial revenue savings required over the medium term.

The MPS capital programme provided for £414.7 million of expenditure in 2020-21. This was to be funded from a combination of capital receipts, grants, and borrowing. At Quarter 2, the forecast capital expenditure outturn for 2020-21 was £333.8 million – an underspend of 19 per cent (£80.9 million) against the £414.7 million budget.

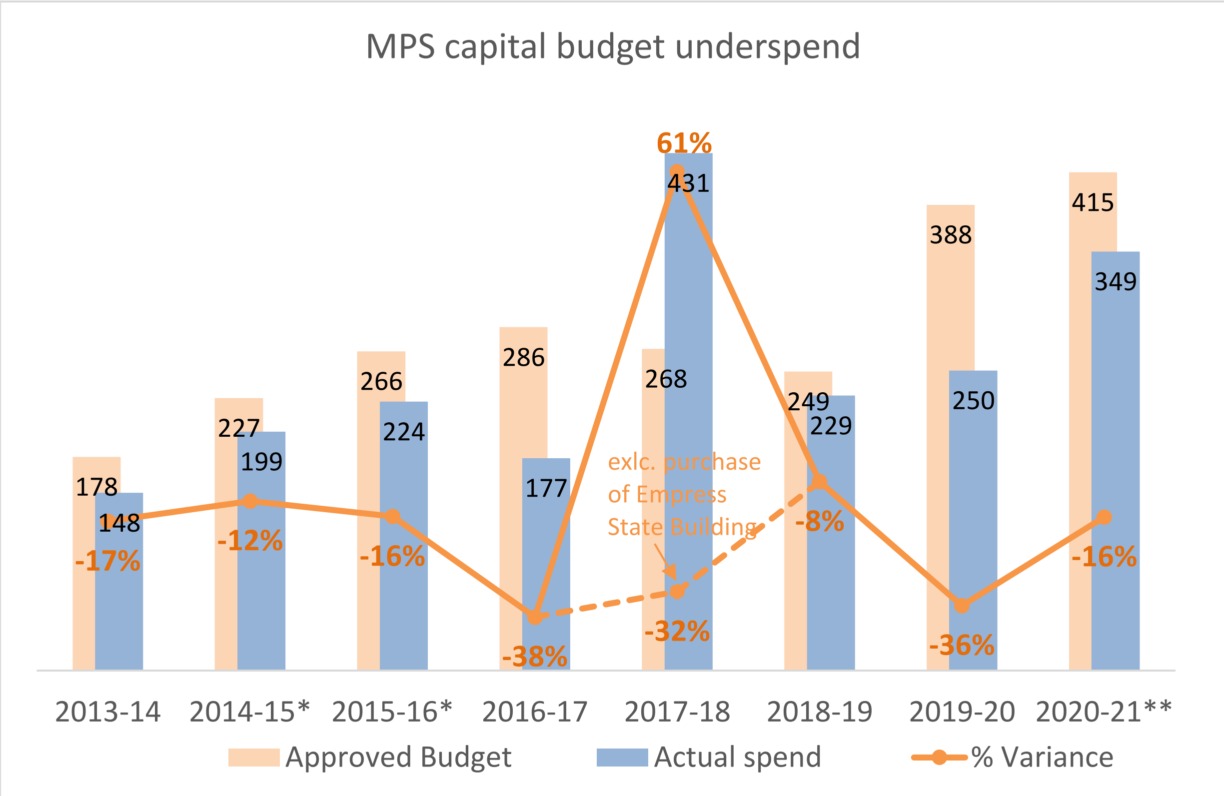
At the 10 December Budget and Performance Committee meeting, Chief of Corporate Services, MPS, Robin Wilkinson OBE stated that some of this underspend was COVID-19 related, while some could be attributed to reduced capital receipts following the growth in police officers. As a result, he said "we have had to have another look at our estate strategy to ensure that it is the right strategy."

However, the underspend is not a one-off. The capital budget has been habitually underspent. In 2019-20, MOPAC spent £138 million (36 per cent) less than it was allocated in the Mayor's

[31] Mayor's Answer for Government's continued underfunding of the NICC grant, 28 December 2017
[32] Lynda McMullan, Director of Commercial Finance, MPS, speaking at the Committee on 11 December 2018

Capital Spending Plan.[33] With the exception of 2017-18 (where a 61 per cent overspend was reported due to the purchase of the Empress State Building) the MPS has similarly underspent its capital budget every year since 2013-14.[34] At the 10 December Budget and Performance Committee meeting, Robin Wilkinson OBE stated that this was an issue that "continues to vex us."

Figure 3: The MPS has consistently underspent against its capital budget



Source: MOPAC Q4 Reports 2013-14 to 2019-20; MOPAC Q1 Report 2020-21
Note: Uses the 'approved budget' figure given by MOPAC in quarterly reporting unless stated otherwise
**Uses revised rather than approved budget; **Forecast outturn only*

The MPS's capital programme for 2021-25 is largely funded through capital receipts and additional borrowing. These are key as only a capital grant of around £3 million is received from Government annually.[35] A planned shrinking of the estate portfolio (and an increase in officer numbers) will impact MOPAC's ability to generate capital receipts. This in turn will increase dependence on external borrowing – leading to an increase in the cost of capital financing. The 2021-22 budget submission shows capital financing costs going up from £95.1 million to £165.9 million in 2022-23. There are questions around how sustainable this is

[33] MOPAC Quarter 4 Report 2019-20 suggests there was a revised budget for this year of £274.3 million
[34] MOPAC Q4 Reports 2013-14 to 2019-20; MOPAC Q1 Report 2020-21
[35] [Budget and Performance Committee Page 12 10 Dec 20]

and to what extent these costs contribute to MOPAC's substantial revenue gap of £301 million in 2022-23.

Recommendation 4: MOPAC should present an updated strategy for its approach to estates and general capital spending, based on appropriate assumptions of police officer recruitment and service transformation.

COVID-19 impact on third party income

COVID-19 has had a significant impact on MOPAC's ability to generate income. The MPS continues to face pressure in terms of third-party income received from the provision of externally funded policing services to key partners such as London airports, TfL and other agencies. In 2019-20, this allowed MOPAC to generate income of £274.8 million. In 2020-21, planned income was £283.7 million.

However, recent forecasts predict a £20.4 million under-recovery of third-party income this financial year. This includes a £7 million reduction from TfL for funded officer roles, £8.8 million in Aviation Policing and vacancies in Specialist Operations. It is not clear how MOPAC will address this income loss. Many partners who ordinarily purchase MPS services are themselves facing financial challenges brought on by COVID-19. Although the Home Office has reimbursed some of the income lost in 2020-21, MOPAC states that there is no indication that more financial support for lost income will be forthcoming from Government.

At the 10 December Budget and Performance Committee meeting, Chief of Corporate Services, MPS, Robin Wilkinson OBE stated that "our current position [...] is that we think our income next year in those core lines will hold up well, that is certainly the indications that we are getting, and that the policing services that we provide across into the transport network and into the airports remain important and will be retained."

The Committee notes the absence of the Government covering the costs of COVID-19 related lost income (such as airports policing due to the closure of airports). In the absence of Government support, the Met should explore other funding avenues such as housing development income or increased income from the policing of events.

Recommendation 5: MOPAC should consider alternative revenue streams to generate income in the Mayor's Final Draft 2021-22 Budget.

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Chapter four – London Fire Commissioner

Recommendation 1

The Commissioner should demonstrate value for money for senior appointments and maintain the LFB's commitment to its youth-related activities.

Recommendation 2

The LFB should provide a realistic plan, with timescales, on how overspend on overtime will be driven down in the Mayor's Final Draft 2021-22 Budget.

Recommendation 3

The LFB should outline a plan for a sustainable long-term financial strategy that is less reliant on drawing down its reserves in the Mayor's Final Draft 2021-22 Budget.

Recommendation 4

The aim of the GLA Collaboration Group is to "secure further tangible savings through greater collaboration across the GLA Group." The LFC should outline any impact that GLA Group collaboration will have on the LFB's finances in 2021-22.

Recommendation 5

The Committee supports the LFB in its efforts to work with the Government to secure additional funding, however there is no guarantee additional resources will be provided. The LFB must create a contingency plan in case the Government does not provide funding for items such as the LFB's pension allocation for 2021-22. Thereafter, the Government and the LFB must agree a long-term pensions funding settlement.

Recommendation 6

The LFB should outline in the Mayor's Final Draft 2021-22 Budget how it has sufficient resources to fund the delivery of its transformation.

Recommendation 7

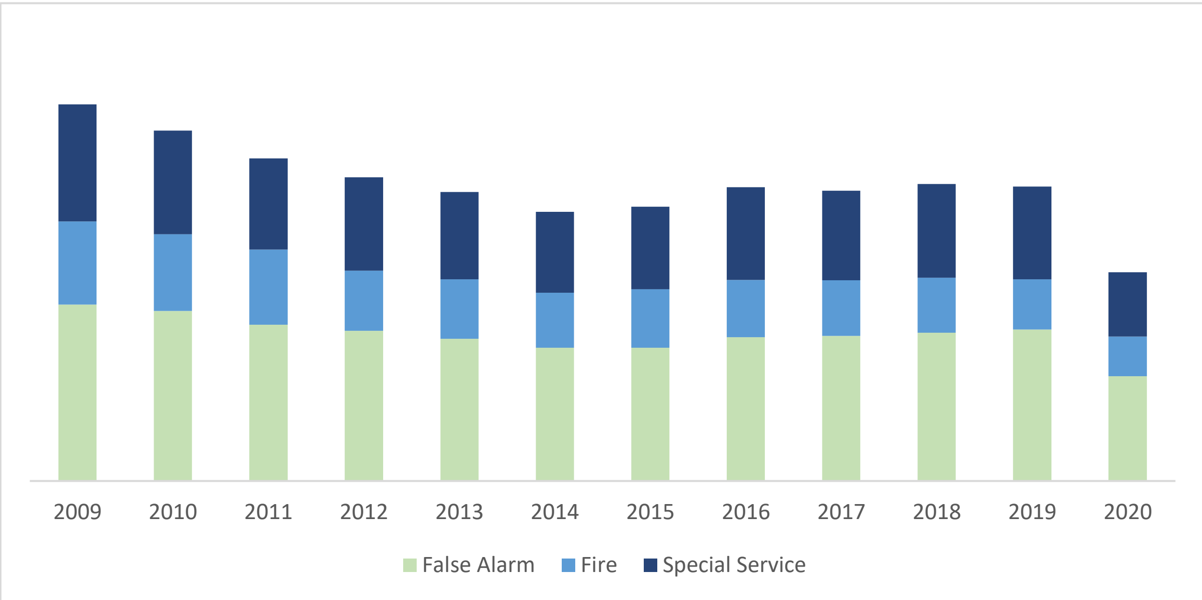
The LFB should clarify what tangible benefits the £7.7 million spend on the transformation programme will have for Londoners in the Mayor's Final Draft 2021-22 Budget.

Background

The London Fire Brigade (LFB), the operational arm of the London Fire Commissioner (LFC), provides vital frontline services to protect the capital's 8.6 million residents. Her Majesty's Inspectorate of Constabulary (HMICFRS) states that the LFB is the "busiest fire & rescue service in the country, and one of the largest in the world."[36]

Over the last decade, the number of fire and non-fire incidents that the LFB has responded to has fallen (see Figure 4). In 2009, the fire service responded to 134,379 incidents, of which 29,591 were fires and 41,797 were incidents which required special services. Comparatively, in 2019, the service attended 17,993 fires and 33,053 special service incidents – a respective 39 per cent and 21 per cent decrease. In recent years, the role and presence of the fire service has had renewed significance and complexity. In particular, the Grenfell tragedy in 2017 has increased demands on the service.

Figure 4: Number of incidences dealt with by the fire service since 2009.



Source: London datastore: London Fire Brigade Incident Records 2009-2020[37]

In the last few decades, there has also been a downward trend in the number of fire deaths in London (Figure 5). The exception to this was 2017, when the Grenfell tragedy occurred. Since the Grenfell Tower Inquiry and the LFC's own review of the Grenfell tragedy, along with HMICFRS' damning inspection of the LFC in 2019, the LFC has embarked on what it describes as an "ambitious" transformational programme. The aim of this programme is to articulate a more strategic direction for the organisation, providing "a strong foundation for 2020 and beyond."[38]

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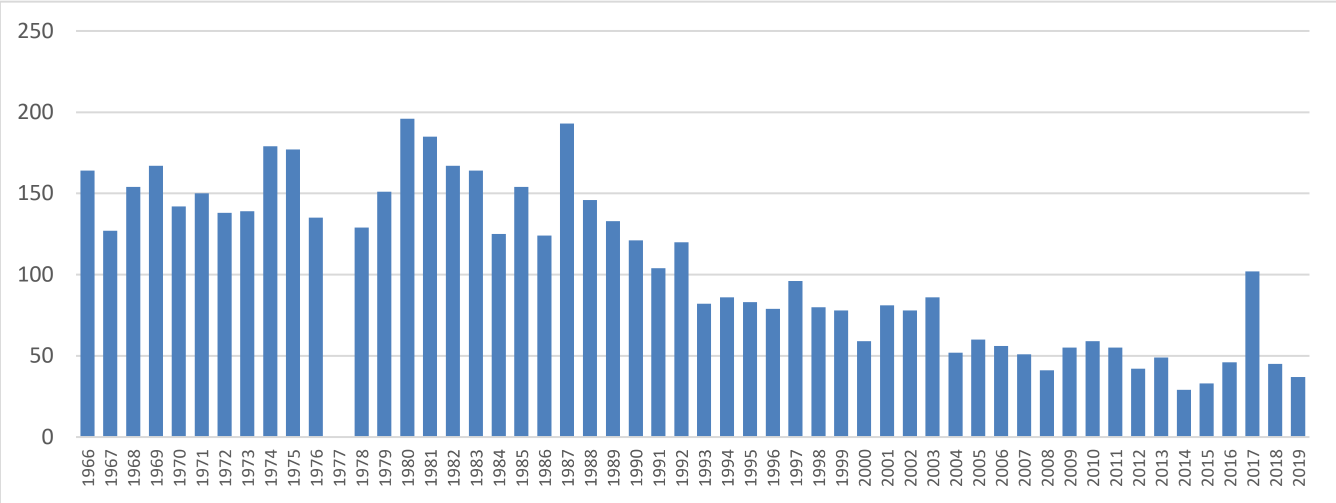
[36] HMICFRS, *London Fire Brigade*, https://www.justiceinspectorates.gov.uk/hmicfrs/fire-and-rescue-services/london/
[37] London Fire Brigade Incident Records 2009-2020 London-fire-brigade-incident-records
[38] LFB, *Transformation Delivery Plan progress,* 18 August 2020, https://www.london-fire.gov.uk/media/5347/LFB-0396-tb_reporton_progress_against_the_tdp.pdf

Figure 5: Total number of fire deaths in Greater London, since 1966



Source: LFB, Fatal fires in Greater London – Fire Facts (2019)[39]

In 2016, the then in-coming Mayor of London, Sadiq Khan, commissioned an independent report to look at the Brigade's resources. The Mayer Review, conducted by the former Chief Executive of the GLA, Anthony Mayer, stated that the Brigade could not withstand further cuts "if it is to have sufficient resources to meet the challenges of the future, and to keep Londoners safe." Mayer also stated that further reductions would have a negative impact on the Brigade and would "particularly affect its capacity to manage new challenges and major incidents where the Fire Brigade needs to co-respond with ambulance services, including major health emergencies or terrorist attacks."[40]

Financial position

The COVID-19 pandemic has had a dramatic impact on the LFC's financial capabilities, with the Mayor initially asking the LFC to make savings totalling £10 million by the end of 2020-21, and £15 million by the end of 2021-22. In September 2020, the Mayor signed Mayoral Decision 2695, which established a Group-wide reserve of £45.1 million to halve the in-year savings for all the functional bodies, except for TfL and the two mayoral development corporations.[41] This means that LFC's in-year savings target was reduced to a maximum of £5 million. Its target for 2021-22 remains £15 million.[42]

[39] https://data.london.gov.uk/dataset/fire-facts--fire-deaths-in-greater-london NB: Data for 1977 is missing in the graph as it was only available until 31 October 1977 (36, 151 fires and 700 chimney fires) due to a fire service national strike.
[40] GLA, *Mayoral Press release,* 2 November 2016, https://www.london.gov.uk/press-releases/mayoral/overall-the-service-has-coped-well-with-cuts
[41] Mayoral Decision 2695, *Allocation of GLA Group reserves in response to COVID-19,* 17 September 2020, https://www.london.gov.uk/decisions/md2695-allocation-gla-group-reserves-response-covid-19
[42] The Mayor's Budget Guidance 2021-22, 26 June 2020, https://www.london.gov.uk/sites/default/files/mayors_budget_guidance_2021-22_final.pdf, p. 11

As well as being required to make significant savings this year and next, the LFC's budget submission for 2021-22 projects an overspend of £5.6 million for 2020-21. Taken together, this means that the LFC faces a £10.7 million budget gap in 2020-21.[43]

On 10 December 2020, the Budget and Performance Committee held a meeting with the Fire Commissioner, Andy Roe, Deputy Mayor for Fire and Resilience Dr Fiona Twycross and Sue Budden, Director of Corporate Services, to examine the LFC's budget proposals for 2021-22.[44]

The Committee identified key issues of concern within the LFC's budget submission, including an overreliance on its reserves, a potential draw down in its commitment to youth education and a recruitment freeze that could, with changes in the regulation of the built environment on the horizon, significantly hamper the Brigade's ability to serve and protect Londoners.

Budget Submission 2021-22

COVID-19

The LFC has accrued significant costs related to COVID-19. During the pandemic, the LFC provided a range of services to assist London's response to the crisis. This included working with the London Ambulance Service (LAS). In April of this year, the LAS and the LFB launched the Ambulance Driver Assist (ADA) programme, to allow firefighters to drive ambulances and assist paramedics in their work when required. The Committee supports this work as an example of blue light collaboration which has provided much needed emergency support to Londoners in tackling the pandemic.

The cost of helping the LAS, along with direct orders of additional Personal Protective Equipment (PPE), face masks, increased clothing and laundry costs and additional IT and communications costs associated with working from home arrangements, mean that the LFB's total forecast cost of COVID-19 is £9.4 million for 2020-21. This will be offset by £1.8 million in grants from the GLA[45] and by additional income from the LAS of £3.5 million on overtime and allowances for ADA support – but this still leaves £4.1 million of net expenditure.[46]

Savings proposals

The LFC's budget submission for 2021-22 sets out proposed funding levels for 2021-22 of £391.8 million; this is in line with Scenario 3 in the Mayor's 2021-22 Budget Guidance. The funding for 2022-23 is £403.6 million; £5.4 million more than the £398.2 million LFC was provided for its forecasting purposes by the Mayor's Budget Guidance.[47]

Before any new savings proposals, the LFC has a budget gap of £5.8 million in 2021-22. This rises to a budget gap of £23.5 million in 2022-23. Following an internal budget process to

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[43] LFB, *Budget Submission 2021-22*, https://www.london-fire.gov.uk/media/5486/lfc-0432-d-budget-submission-2021-22-final-signed.pdf
[44] Budget and Performance Committee meeting, 10 December 2020.
[45] From the second tranche of funding provided by the Ministry of Housing, Communities & Local Government (MHCLG) in emergency COVID-19 funding. See: Mayoral Decision 267
[46] LFB Budget Submission 2021-22.
[47] *Ibid.*

identify saving proposals to meet these requirements, the budget submission includes £8.2 million in savings over the period 2021-22 to 2022-23. Of this, £4.2 million in savings has been proposed for 2021-22, with the remaining £4 million being achieved in 2022-23. The proposals include a number of reductions in posts, including the deletion of Local Intervention Fire Education (LIFE) posts. LIFE provides courses for those aged 14 to 17, who face challenges and can learn transferable skills through firefighting. The posts will be the subject of a Youth Review currently being undertaken by the LFC.[48]

The submission also proposes the deletion of five Business Administration Apprentice roles, which are currently vacant. At the 10 December 2020 Budget and Performance Committee meeting, the Director of Corporate Services, Sue Budden, stated that this was a "casualty of this budget round in that we do not have the facility to support that process. We have had success with business apprentices, but it is something that we cannot support going forward, especially in light of the FRS recruitment freeze as well that we have at the moment. We would look to reinstate it if it were possible in the future."[49] Conversely, the budget submission proposes the creation of two new senior posts. At the same meeting, the Commissioner stated that there was a strong business case for the senior appointments and reiterated the Brigade's commitment to youth and community engagement.[50] However, the Committee is concerned that further financial pressure may lead to a scaling down in the Brigade's commitment to youth activities.

Recommendation 1: The Commissioner must demonstrate value for money for senior appointments and maintain the LFB's commitment to its youth-related activities.

Staffing numbers

The LFC's budget submission for 2021-22 proposes a recruitment freeze for operational and Fire and Rescue Service (FRS) staff. This will result in total reductions in operational staff spend of £14.7 million over two years (based on a start date of April 2021). This assumes that the savings from a recruitment freeze are not offset by the use of additional staff overtime or agency worker costs. On this basis, it would result in an expected operational workforce reduction of 108 staff in 2021-22 and 296 staff in 2022-23.

An FRS recruitment freeze would result in a reduced spend in 2022-23, which is estimated at £2 million. This assumes that no new agency staff would be recruited, and that the majority of existing agency staff are let go. As at 30 September 2020, there were 177 vacancies and 89 agency staff.[51] At the 10 December 2020 Budget and Performance Committee meeting, Sue

[48] *Ibid.*
[49] Budget and Performance Committee meeting minutes, 10 December 2020, p. 41
[50] *Ibid.*, pp.39-40.
[51] LFC, *Financial Position as at the end of September 2020*, 4 November 2020, https://www.london-fire.gov.uk/about-us/our-decisions/, p. 6

Budden, stated that the LFC did not intend to fill these vacancies as part of wider plans to reduce the overspend.[52] While the Committee welcomes the LFC's approach in driving efficiencies within the service, a reduction in agency workers and a significant number of vacant posts does raise questions around the effectiveness of the structures in place and staff capacity.

With the recruitment freeze and savings proposals factored in, the LFC still has a gap of £8.2 million in 2022-23. At the 10 December 2020 meeting, the Commissioner stated that the next London Safety Plan (LSP) would set out how these savings would be found. He went on to state that the LSP would aim to drive out efficiencies within the LFB and could potentially include an ask for additional resourcing to handle additional pressures on the Brigade.[53] In the same meeting, he stated that a timetable for the LSP was being worked up, with the process of planning beginning in the New Year and consultation running through the spring and early summer before being agreed by the Mayor in November. He stated that the Budget and Performance Committee would be consulted on the plan.[54]

Staff overtime

The LFC's budget for operational staff is forecast to have a substantial overspend of £6.8 million for 2020-21[55] – an increase of £1.8 million since the June financial position report.[56] This is partly due to additional costs to support the LAS as part of the COVID-19 response. The LFC is expecting to recover £3.5 million from the LAS for overtime and support. However, this still leaves a significant overspend of £3.3 million, primarily due to Pre-Arranged Overtime (PAO).[57]

As at 30 June 2020, the LFC's overtime costs were expected to be £4 million.[58] At the 22 September meeting of the Budget and Performance Committee, Sue Budden stated that the LFC was expecting to improve this forecast by the time of the following quarter's financial report.[59] The forecast has instead increased by £2 million.[60]

In the 10 December Budget and Performance Committee meeting, the Commissioner described PAO as "complex" and stated that it was a mix of meeting the needs of establishment and allowing the LFB to quickly backfill specialist staff who had either been adversely affected by

[52] Budget and Performance Committee meeting minutes, 10 December 2020, p. 30
[53] *Ibid.,* p. 36
[54] *Ibid.,* p.52
[55] LFC, *Financial Position as at the end of September 2020,* 4 November 2020, https://www.london-fire.gov.uk/about-us/our-decisions/, p. 3
[56] LFC, *Financial Position as at the end of June 2020,* 29 July 2020, https://www.london-fire.gov.uk/about-us/our-decisions/, p. 2
[57] LFC, *Financial Position as at the end of September 2020,* 4 November 2020, https://www.london-fire.gov.uk/about-us/our-decisions/, p. 6
[58] LFC, *Financial Position as at the end of June 2020,* 29 July 2020, https://www.london-fire.gov.uk/about-us/our-decisions/, p. 2
[59] Budget and Performance Committee meeting minutes, 22 September 2020, p. 8
[60] LFC, *Financial Position as at the end of September 2020,* 4 November 2020, https://www.london-fire.gov.uk/about-us/our-decisions/, p. 6

COVID-19 or have had to self-isolate. He stated that the LFB had undertaken work to see where further reductions could be made on PAO use and spend.[61]

However, the Budget and Performance Committee has frequently noted the Brigade's history of overspend on overtime. This was, as Deputy Mayor Dr Fiona Twycross told the Committee on 10 December, previously masked by an underspend on operational staff. However, as the LFB is now at full establishment, due to recruitment and closing of vacancies, the Committee encourages the LFC to accelerate work on reducing spend on overtime.[62]

Recommendation 2: The LFB should provide a realistic plan, with timescales, on how overspend on overtime will be driven down in the Mayor's Final Draft 2021-22 Budget.

Reserves

The LFC continues to rely on the Budget Flexibility Reserve (BFR) to plug budget gaps. This is an unsustainable financial strategy, with current projections estimating that the BFR will be eliminated by 2022-23.[63]

In previous budgets, the LFB has built up its general reserves and BFR through budget surpluses to fund budget shortfalls in the future. These budget surpluses are largely a result of vacancies being held, which leads to underspend. The underspend is then carried into reserves to be drawn down in future years. This has largely been a deliberate strategy, designed to help the LFB cope with the uncertainty around Spending Reviews and funding for firefighter pension costs.[64] The critical issue here is not the use of reserves in itself, but the financial sustainability of a budget which relies on the short-term use of reserves as a funding source in order to be balanced. This increases expenditure in the short term beyond that which can be funded going forward.

The LFB is currently planning to use the balance on the BFR to help address its budget gap and deliver a balanced budget in 2021-22. However, the LFB acknowledges that an increased use of the BFR in this way will deplete the reserve and will impact its ability to balance its budget in future years.[65]

The role of the LFB has changed post-Grenfell. Fire safety issues within London's built environment are still being identified, whilst the LFB has had to adapt its work to address these issues. This has cost money, with the additional funding necessary to purchase new equipment

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[61] Budget and Performance Committee meeting minutes, 10 December 2020, pp.30-31.
[62] *Ibid.*, p. 31
[63] LFB Budget Submission 2021-22, p. 70
[64] Budget and Performance Committee meeting minutes, 10 December 2020, p. 32.
[65] *Ibid.*, p. 37

and provide firefighter training. The Brigade has not received additional funding for all of these activities, which partly explains the use of reserves.

However, the December 2019 HMICFRS report into the LFB found that, although it is well resourced, the LFC is overly reliant on reserves. The report stated that the LFB needed to ensure that it had "strong enough plans in place to address financial challenges beyond 2020" and that "these plans should secure an affordable way of managing fire and other risks."[66]

At the 10 December Budget and Performance Committee, the Commissioner stated that he has discussed the LFB's approach to use reserves to "smooth out unexpected difficulties, i.e. COVID" with Lord Stephen Greenhalgh, the Minister of State for Fire. He said the Minister was "comfortable" with the approach.[67] At the same meeting, the Deputy Mayor Dr Fiona Twycross admitted that "the reserve is being depleted. You can only spend it once. There is a serious risk of the Brigade's budget gap growing in the future."[68]

Recommendation 3: The LFB needs to outline a plan for a sustainable long-term financial strategy that is less reliant on drawing down its reserves in the Mayor's Final Draft 2021-22 Budget.

GLA Group collaboration

The submission document refers to the GLA Group Collaboration Programme – a programme set up by the Mayor to ensure collaboration across the GLA Group. However, little reference is made to any material savings, with the document stating that the results of the work will be "included in the budget process as they are available on an ongoing basis."[69]

The budget submission does include estimates on energy savings (£280k in 2020-21, increasing to £326k in 2021-22) which will be achieved through a framework agreement with LASER (a subsidiary of Kent County Council). It also includes potential income of £1.4 million in 2022-23 from securing additional tenants for surplus accommodation at Union Street. This, the submission states, has been achieved with the support of the GLA Estates Group.[70]

At the 10 December Budget and Performance Committee meeting, the Commissioner stated that the LFC was doing more collaborative work but that this did not relate "directly into this particular budget submission at this point."[71]

[66] HMICFRS, Effectiveness, efficiency and people 2018/19-London Fire Brigade, December 2019, p. 26
[67] Budget and Performance Committee meeting minutes, 10 December 2020, pp.31-32.
[68] *Ibid.*, p. 37
[69] LFB Budget Submission 2021-22, p. 13
[70] *Ibid.*
[71] Budget and Performance Committee meeting minutes, 10 December 2020, p. 50

Recommendation 4: The aim of the GLA Collaboration Group is to "secure further tangible savings through greater collaboration across the GLA Group."[72] The LFC needs to outline any impact that GLA Group collaboration will have on the LFB's finances in 2021-22.

Spending Review

In its Quarter 1 financial report in June, the LFC included in its budget assumptions, a one-off grant of £21.7 million from the Government to cover firefighter pensions in 2021-22.[73] This was expected to be settled in the Spending Review, which was announced at a high level on 25 November 2020.[74] To date, it is not clear whether this support will be provided. The LFC's budget submission assumes this funding will be forthcoming.[75] At the 10 December Budget and Performance Committee meeting, Sue Budden confirmed that it seemed prudent to assume that this funding would be forthcoming.[76]

Recommendation 5: The Committee supports the LFB in its efforts to work with the Government to secure additional funding, however there is no guarantee additional resources will be provided. The LFB must create a contingency plan in case the Government does not provide funding for items such as the LFB's pension allocation for 2021-22. Thereafter, the Government and the LFB must agree a long-term pensions funding settlement.

Capital programme

The LFC's capital programme is heavily reliant on borrowing in 2020-21. The LFC's expenditure against the capital programme in 2020-21 will be partly funded through the use of capital receipts (£1.5 million) and third-party contributions (£0.6 million). The remaining budget requirements will need to be financed through borrowing (£29 million), with arrangements in place with GLA Group Treasury to borrow within the GLA Group before realising capital receipts. In 2021-22, borrowing will drop significantly to £6.8 million, on the assumption that £51 million in capital receipts will be realised, principally from the sale of the former headquarters building for the Brigade at 8 Albert Embankment. At the 10 December Budget

[72] Mayoral Decision 2496, *GLA Group Collaboration*, 15 July 2019, https://www.london.gov.uk/decisions/md2496-gla-group-collaboration
[73] LFC, *Financial Position as at the end of June 2020*, 29 July 2020, https://www.london-fire.gov.uk/about-us/our-decisions/, p. 7
[74] Gov.uk, *Spending Review 2020 documents*, 25 November, https://www.gov.uk/government/publications/spending-review-2020-documents
[75] LFB, Budget Submission 2021-22, p. 79
[76] Budget and Performance Committee meeting minutes, 10 December 2020, p. 52.

and Performance Committee meeting, Sue Budden, stated that there was still uncertainty around whether the building would be sold and whether the sale price would be affected by the economic impact of COVID-19.[77] The redevelopment of the property is subject to a planning application that has been called in by the Secretary of State[78].

Grenfell

Grenfell-related activity has become a significant aspect – both operationally and financially – of the LFB's work programme. In its Quarter 2 financial position update in September, the LFB reported that the budget was under pressure from a substantial increase in renewal premiums as a result of the claims experience on Grenfell. This sees the LFB's insurance related budgets projected to overspend by £501,000 in 2020-21.[79]

There has also been an overspend on the LFB's Hardware and Software budget due, in part to £321,000 spent on Grenfell Tower Investigation legal related software purchases.[80] Furthermore, a forecast overspend of £5.66 million on the Supplies and Services budgets has been largely driven by a £675,000 overspend on Professional Services mainly on Grenfell Tower Investigation legal costs. LFB has stated that this will be offset by income from insurers.[81]

Post-Grenfell transformation and built environment changes

The LFB's budget submission for 2021-22 refers to the LFB's Transformation Delivery Plan, with costs estimated to be £3.5 million in 2020-21 and an on-going cost of £4.1 million from 2021-22. A Transformation reserve has been established to support the £7.7 million costs in these first two years.[82]

The submission also refers to changes in the built environment and the role of the Brigade. The Fire Safety Bill (which has had its third reading in the House of Lords and will now be considered in the House of Commons)[83] will potentially require the Brigade to inspect and enforce fire safety in a wider range of buildings.[84]

At the 10 December 2020 Budget and Performance Committee meeting, the Commissioner stated that addressing the scale of risk and challenges around the built environment post-Grenfell has increased demand and pressure on the Brigade's resources. He stated that Phase 2 of the Grenfell inquiry had revealed "criminal negligence on a scale that was unimaginable previously in the building trade and aligned private inspection companies […] we are sitting on an issue here that is not fully yet understood in its scale in London. I am seeing increasing numbers of incidents where the fabric of a building is failing in ways that are unexpected."[85]

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[77] *Ibid.*, pp.54-55
[78] PBC Today 12 June 2020 8-albert-embankment
[79] LFC, *Financial Position as at the end of September 2020*, 4 November 2020, https://www.london-fire.gov.uk/about-us/our-decisions/, p. 5
[80] *Ibid.*, p.7
[81] *Ibid.*, p. 6
[82] LFB Budget Submission 2021-22, p. 11
[83] Houses of Parliament, *Fire Safety Bill 2019-21*, *https://services.parliament.uk/bills/2019-21/firesafety.html*
[84] LFB Budget Submission 2021-22, p. 10
[85] Budget and Performance Committee meeting minutes, 10 December 2020, pp. 32-33.

He also stated that the Ministry of Housing, Communities & Local Government's latest estimates indicated that there were now 62,000 high risk buildings in London, and that issues now went beyond cladding and included generally poor construction and inspection. At the start of the pandemic, there were 160-200 waking watches buildings, and this is now at 600 and rising.[86]

The risk is continually emerging, and the Commissioner stated that it was difficult to quantify. These risks, he stated, would require a greater number of skilled professionals to take on high risk premises and raised questions around how resources were configured in the next LSP to ensure the Brigade was addressing the risks.[87]

The LFC's submission states that these additional pressures will need to be addressed by the Government as part of a future Spending Review.[88] When asked by this Committee what contingency plans the LFC had if Government financial support for the increased number of inspections proved to be insufficient, Sue Budden stated that the issue was "largely how we use our staff rather than needing additional money."[89] Earlier in the meeting, the Commissioner had stated that the LFB would "need to maintain the size of workforce we have in that context" and that while the LSP would drive out efficiencies, there could "potentially [be] an ask around resources."[90]

Recommendation 6: The LFB should outline in the Mayor's Final Draft 2021-22 Budget how it has sufficient resources to fund the delivery of its transformation.

Recommendation 7: The LFB should clarify what the tangible benefits the £7.7 million spend on the transformation programme will have for Londoners.

[86] *Ibid.*
[87] *Ibid.*
[88] LFB Budget Submission 2021-22, p. 10
[89] Budget and Performance Committee meeting minutes, 10 December 2020, p. 56.
[90] *Ibid.*, p. 36

Chapter five – GLA Core

Recommendation 1

The Mayor should clarify how the GLA:Mayor budget will meet its savings target for 2021-22, including details of where those savings will come from and what their impact will be in his 2021-22 Final Draft Budget.

Recommendation 2

The Mayor should issue a corporately verified assessment of the extent to which Mayoral commitments and GLA initiatives have been delivered in full and on time during this Mayoral term prior to the 2021 GLA pre-election period commencing.

Development of a GLA:Mayor budget for 2021-22

This Committee considered the draft GLA:Mayor budget submission for 2021-22 at its 24 November 2020 meeting and raised strong concerns in its response (a letter to the Mayor's Chief of Staff dated 9 December 2020, Appendix 2; along with the Mayor's Chief of Staff's response dated 4 January 2021, Appendix 3) at the lack of evidence of progress in developing a GLA:Mayor budget for 2021-22. The Consultation Budget shows no evidence of progress made in the period since that meeting.

COVID-19 has created an uncertain budget situation, particularly with Council Tax and Business Rates income. However, the GLA:Mayor budget that has been presented to the London Assembly has insufficient evidence of development, compared with the other budgets presented in the Consultation Budget and with the progress made by this stage over the last 20 years with the GLA:Mayor budget.

In addition to lack of detail around savings, the absence of a subjective analysis for the GLA:Mayor budget – which would track trends in costs as set out by category of spend such as staff, supplies and services, premises etc – appears to be a particularly significant omission. A subjective analysis has been supplied by all other parts of the GLA Group.

Only indicative figures have been included in the Mayor's 2021-22 Consultation Budget, this includes a forecast of £38.9 million of savings and efficiencies "identified" for the budget in 2021-22, which have in fact yet to be agreed and communicated.[91]

The Committee does not doubt that there has been work undertaken but is concerned that it has not received the detailed GLA:Mayor budget plans at this stage with the savings fully incorporated and has been informed that it shall not receive them until March 2021 after the

[91] Appendix G on page 86 of the Consultation Budget

budget setting process is over. This significantly limits the Assembly's ability to scrutinise the GLA:Mayor budget. For this reason, it is key that the impact of the required savings is reflected in the next iteration of the Mayor's GLA Group Budget.

The Mayor's Chief of Staff's letter of 4 January 2021 states at paragraph 1[iii]
'Your comment that this new approach "could easily become a paper exercise without any obvious benefit to Londoners" misunderstands the depth of the commitment made and the work that has been undertaken. Our approach to re-focus our programmes and staffing resources to support London's recovery represents a major departure in how the GLA is organised concentrating on the outcomes that are to be delivered from the Missions.'

The concern with this statement is that limited evidence has been presented to demonstrate "the depth of the commitment and the work that has been undertaken." Similarly, it may well be the case the "approach to re-focus [our] programmes and staffing resources… represents a major departure" but again there is very little evidence presented through the budget setting process thus far to support that argument.

Of even greater concern is the Mayor's Chief of Staff's statement at the Committee's 5 January 2021 meeting that the detail of the GLA:Mayor budget savings for 2021-22 will not be available until the week commencing 8 March 2021 at the earliest.

The financial climate is challenging, but the fact that the details of a component budget will not be made available until that budget has been set is a limitation on this Committee's ability to scrutinise the Mayor's budget proposals. This would mark a breach with the last 20 years of practice for the GLA budget and would be out of step with the approach being taken for the functional bodies' budgets for 2021-22.

There is a danger in this approach that the Assembly's statutory role in the budget setting process is being undermined. Schedule 6 of the GLA Act sets out the Assembly's duty to consider the statutory calculations required by section 85. The statutory calculations include estimates of expenditure, income, use of reserves and use of contingency funds.

The calculations for the GLA:Mayor budget must be based on something concrete. It is therefore unavoidable that the Final Draft Budget, which is to be issued in February 2021, must provide some indication of the priorities being set and the savings being made and the rationale underlying those decisions.

On the question of timing, all other precepting authorities have to set their budgets (which will be detailed) and issue their precepts by 1 March and will also have to manage the uncertainty around income. The GLA should have a very good estimate from boroughs of likely income levels for 2021-22 by early February 2021.

It therefore seems entirely possible for full details of the GLA:Mayor budget to be included in the Final Draft Budget, particularly details of savings and their expected impact on GLA:Mayor functions. As in previous years, it will inevitably be the case that there will be various updates made to the GLA:Mayor budget in March (as is the case with the functional bodies) but that in no way prevents a full analysis being made available in February.

It is not yet clear where the required savings are coming from, but in the absence of any plan to reduce staffing numbers, it would seem reasonable to assume that the savings will predominantly arise from programme reductions. If this were to be the approach taken, then it in turn gives rise to whether the level of GLA staff employed to administer those programme budgets will require reconsideration.

The Mayor's Chief of Staff wrote to the Chair of the GLA Oversight Committee on 7 August and stated that: *"I want to repeat what I said at the meeting that anyone who states there will be no redundancies arising from the reductions to the GLA:Mayor budget is wrong."*

However, the Chief Officer appeared to row back from that position at the Committee's meeting on 24 November, when she stated that, while the staffing plans had yet to be worked through, staff would be redeployed rather than made redundant. The Committee will be monitoring these movements to ensure that these redeployments and alterations to programme budgets provide value for money and deliver for Londoners.

It is noticeable from the Mayor's 2021-22 Consultation Budget that the approach taken for the GLA:Mayor budget differs from that for the functional bodies in the sense that far greater emphasis is placed on the London Recovery Board's Missions in the GLA:Mayor budget presentation than in the functional bodies' budgets.

The GLA:Mayor deliverables are directly related to the Missions and lack detail, and extend well beyond the financial planning horizon of March 2023 set out in this budget document.[92] Of the nine deliverables, six have a 2025 delivery date assigned to them, one has 2024, one has 2030 and one is without a date. It is unclear how performance can be assessed in 2021-22 given the lack of detail around delivery in the budget year.

Recommendation 1: The Mayor should clarify how the GLA:Mayor budget will meet its savings target for 2021-22, including details of where those savings will come from and what their impact will be in his 2021-22 Final Draft Budget.

Assessment of GLA:Mayor performance during this Mayoral term

At the beginning of this Mayoral administration in 2016, there was a review of internal approval mechanisms for significant items of expenditure. The principal outcome of that review was that the Investment and Performance Board (IPB) became the Corporate Investment Board (CIB)

[92] Paragraph 2.3 on page 17 of the 2021-22 Mayor's Consultation Budget

and the process whereby IPB first considered the outline business cases for major projects – prior to a draft Mayoral decision being considered at a later meeting – was discontinued.

There were some other related changes to corporate practice at that time:

- The GLA's Business Plan was discontinued;
- GLA performance monitoring moved to a more outcome focused approach (as opposed to milestones or outputs); and
- The document tracking progress on delivering Mayoral commitments, which had previously been reported in public to IPB, was discontinued.

More recently, the content of the most recent Mayor's Annual Report (for 2019-20) reflected a reduced approach and the Annual Report contained the minimum required to meet the Mayor's statutory duty. The Committee appreciates the constraints that the COVID-19 pandemic has placed on all activities and requests that the 2020-21 report goes back to the previous format.

As this is the fifth and final GLA:Mayor budget of this Mayoral term, it is reasonable for Londoners and this Committee to want to know how the Mayor has utilised the funds placed at his disposal to the benefit of the city. It is not immediately apparent how that can be done, either in terms of the timely and effective delivery of Mayoral commitments or of GLA initiatives.

The current outcome-based performance monitoring does not lend itself to tracking specific programmes and has such a broad scope, involving multiple stakeholders, that it is difficult to assess where there have been delays or other problems on the GLA side. It is not clear how the nine GLA:Mayor deliverables arising from the London Recovery Board's Missions will fit into the GLA's performance management regime[93].

The Mayor was receptive to taking onboard the concerns of the Committee stating on 5 January that "can I also suggest that if you have any ideas   I mean this sincerely   in relation to improvements, we are more than happy to listen, particularly with the challenge of the recovery and the missions. If you have any ideas in relation to how we can improve in providing that information, genuinely I am all ears." The Committee will be taking up the Mayor's offer.

Recommendation 2: The Mayor should issue a corporately verified assessment of the extent to which Mayoral commitments and GLA initiatives have been delivered in full and on time during this Mayoral term prior to the 2021 GLA pre-election period commencing.

[93] Paragraph 2.3 on page 17 of the 2021-22 Mayor's Consultation Budget

Chapter six – London Legacy Development Corporation

Recommendation 1

The LLDC must make demonstrable progress towards securing a naming rights deal for the London Stadium in 2021-22.

Recommendation 2

The LLDC's borrowing must be limited to a level that it is realistically capable of repaying.

Recommendation 3

The LLDC must regain control of the East Bank costs.

Recommendation 4

The LLDC must carefully review the level of capital receipts to ensure that they are realistic and identify any further funding needs.

Recommendation 5

The LLDC must publish its transition plan.

Introduction

The LLDC was established in 2012 to manage the physical legacy of the 2012 Olympic Games.[94] Its stated aim is to 'use [the] opportunity of the London 2012 Games and the creation of Queen Elizabeth Olympic Park to change the lives of people in east London and drive growth and investment in London and the UK'.[95] Along with managing Olympic Park venues, the LLDC is responsible for developing the Park as a community where people work and live. By 2030, the LLDC plans to deliver 10,000 new homes and five new neighbourhoods in the Park.[96]

Under current funding arrangements, the GLA puts upfront investment into the LLDC. The LLDC expects that by the mid-2030s the organisation will be generating an annual return of around £200 million in Business Rates and Council Tax as a result of the regenerative impacts that the Corporation is making in the Park.

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[94] Secretary of State for Communities and Local Government, The London Legacy Development Corporation (Establishment) Order 2012
[95] LLDC Vision
[96] The new neighbourhoods are Chobham Manor, East Wick & Sweetwater, Stratford Waterfront, Pudding Mill and Rick Roberts Way

The LLDC was set up as a time-limited organisation that would, in due course, complete its development programme before returning its planning powers to the boroughs. It is required to establish long-term arrangements for the management of the Olympic Park and surrounding neighbourhoods and transfer these to legacy organisation.

The LLDC has confirmed it is on track to deliver in-year savings of £7.4 million in 2020-21 million as well as £2.1 million in savings in the 2021-22 Budget to address the impact of COVID-19 on the GLA's finances. However, the LLDC has also forecast a £4.3 million gap in its revenue budget from 2022-23.[97]

London Stadium

The LLDC is probably most famous for owning the London Stadium, which is home to the Premier League team, West Ham United. The Stadium, which is brand-new, at best will cost Londoners between £8 million and £10 million every year. That is provided West Ham United remains in the top football league in the UK. If West Ham United is relegated to the Championship, this cost will increase by a further £1.5 million per year.

The London Stadium, which on its own constitutes 25 per cent of total annual revenue expenditure, continues to be a significant loss-maker for the LLDC. It lost £29 million in 2019-20 alone. Despite steps to reduce operating costs, the LLDC predicts that, at best, it can reduce the loss to £8-£10 million annually. Thus far, limited progress has been made to find alternative sources of income to compensate for operating costs. This is highlighted by the lack of progress over naming rights for the stadium, which could be generating millions every year.

As the Moore Stephens Olympic Stadium Review makes clear, in 2013 the LLDC 'entered into an arrangement with West Ham United which, when implemented, generated substantial losses (with no present prospect of significant improvement in the future)'.[98] This was starkly highlighted by the fact that most of the in-year savings delivered by the LLDC have come from reduced stadium activity; it *saves* the LLDC money when it's not running events.

Recommendation 1: The LLDC must make demonstrable progress towards securing a naming rights deal for the London Stadium in 2021-22.

2021-22 budget submission

The combined capital budget for 2023-24 includes an £88.9 million increase in the GLA grant, largely to address COVID-19 pressures on the East Bank and other development projects[99], as well as an additional £37.7 million capital grant for the years 2023-24 to 2025-26. These

[97] LLDC 2021-22 Budget Submission, page 30
[98] Moore Stephens Olympic Stadium Review olympic-stadium-review.pdf
[99] MD2695 - 17 September 2020; this allocation is also intended to ensure LLDC remain within its existing borrowing limit of £520 million (See LLDC 2021-22 Budget Submission, page 5)

additional contributions are intended to keep the LLDC within its £520 million borrowing limit set by the GLA. Following discussions with the GLA, the LLDC has agreed to instead show this additional requirement as loan funding with a commitment by the GLA to review the LLDC's borrowing limits over the coming years (these would need to be increased to £550m and £560m in 2023-24 and 2024-25, respectively).

Recommendation 2: LLDC's borrowing must be limited to a level that it is realistically capable of repaying.

Cost of East Bank project has more than doubled since it was first announced
The East Bank is the LLDC's flagship regeneration scheme, which aims to deliver 'one of the world's largest and most ambitious cultural and education districts' across three sites in the Park. Its ambition is to provide skills and jobs for local people, attract visitors from around the world, bring more than 10,000 students to the site, deliver 2,500 jobs and generate a £1.5 billion boost to London's economy.

The cost of developing the East Bank has increased significantly since it was initially announced. On 5 June 2018, the Mayor announced he was committing £385 million to the East Bank development.[100] At the Budget and Performance Committee meeting on 8 December 2020, the LLDC reported that, assuming no further COVID-19 impacts on construction timeframes, the total anticipated final cost of the project (i.e. the gross cost) is now £628 million.[101] This is a 63 per cent increase on the original figure provided by the Mayor in 2018.

The LLDC has also clarified that only around 50 per cent of this increase is due to COVID-19 costs. Costs were already escalating prior to the pandemic, with unplanned growth in tender prices and design issues contributing substantially to cost pressures. [102] When asked about the increase at the Budget and Performance Committee meeting on 5 January the Mayor and his Chief of Staff admitted that they did not recognise the numbers and suggested that the figures may not be on the same basis and that the true increase may only be £114 million.

Recommendation 3: The LLDC must regain control of the East Bank costs

Impact of COVID-19 on profitability of LLDC housing developments
One of the LLDC's main priorities is the development of new, well-designed, sustainable and accessible neighbourhoods. To achieve this, the LLDC has committed to enabling the delivery

[100] Press Release – Mayor unveils £1.1bn vision for East Bank – 05 June 2018
[101] Budget and Performance Committee Meeting, 8 December 2020, Minutes, page 8
[102] Budget and Performance Committee Meeting, 8 December 2020, Minutes, page 8

of 33,000 new homes by 2036 through the Local Plan.[103] To date 10,109 homes (30 per cent of the target) have been completed across two of five new Park neighbourhoods: Chobham Manor and East Wick.[104] The LLDC is seeking to commit to the next stages of development and looking for a joint venture partner who will support LLDC housing delivery objectives and share market risk and return.[105]

Capital income from housing development sites is an important factor in achieving financial sustainability for the project. London real estate prices are in flux as the market adjusts to the pandemic and the Stamp Duty holiday instigated by the Chancellor. In September, the Centre for Economics and Business Research forecast that UK house prices may drop as much as 13.8 per cent from 2020 to 2021.[106] The Mayor recently echoed these concerns, suggesting London may be facing an 'existential threat' from the changes to working life caused by the pandemic, and the possible shift out to the suburbs. [107]

The LLDC's 2021-22 Budget Submission included updated house price inflation assumptions based on an average of third-party London-wide forecasts,[108] that saw an overall decrease in forecast capital receipts of £49.6 million compared to its projections at the last Budget.[109] The LLDC confirmed at the Budget and Performance Committee meeting on 8 December 2020 that it has had to increase its borrowing to make up for what it termed 'a reduction in short-term house price inflation.'[110] However, the LLDC also confirmed it assumes 'future house price inflation being more positive'.[111]

Along with slow house price inflation, risks may be emerging around a disproportionate impact on demand for shared ownership homes. The LLDC has concerns that the economic conditions brought on by the pandemic may depress demand for the 'shared ownership' model. Given that in 2019, 35 per cent of the LLDC's planning permissions were for intermediate (or 'shared ownership') homes, this could have a significant impact on profitability.[112]

Recommendation 4: The LLDC must carefully review the level of capital receipts to ensure that they are realistic and identify any further funding needs.

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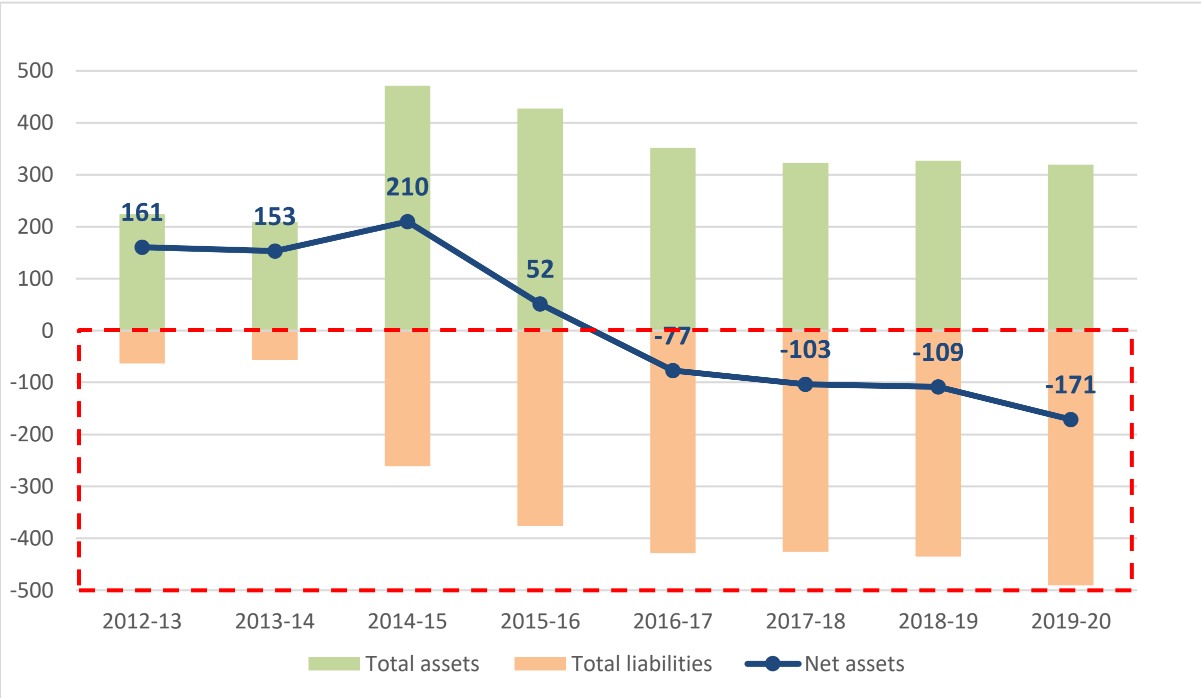
[103] Annual Report 2019-20, page 5
[104] Planning Authority Monitoring Report (2019 – 31 March 2020)
[105] Letter from LLDC to Susan Hall AM, Chair of the Budget and Performance Committee, 30 November 2020
[106] CEBR, Report, September 14 2020
[107] The Guardian, Sadiq Khan: 'There is potentially an existential threat to central London' 22 November 2020
[108] Letter from LLDC to Susan Hall AM, Chair of the Budget and Performance Committee, 30 November 2020
[109] LLDC 2021-22 Budget Submission, page 14; this figure represents the total forecast change over the entire project (includes the '2025/6 and Onwards' plan).
[110] Budget and Performance Committee Meeting, 8 December 2020, Minutes, page 6, page 14; The LLDC has revised house price inflation down to minus 6.5 per cent in 2020 and 3.5 per cent in 2021, down from an early assumption of 1 per cent and 3 per cent respectively
[111] Budget and Performance Committee Meeting, 8 December 2020, Minutes, page 8, page 14
[112] *Planning Authority Monitoring Report (2019 – 31 March 2020)*, Table 13 on page 47, Table 14 on page 48

The LLDC's decreasing value

The LLDC is taking many steps towards reducing costs and increasing income generation. The 3 Mills Studio is bringing in substantial income to the Park; strategies are in place to reduce the annual stadium losses; and progress is being made on the major development sites, which are realising at least some of the forecast capital receipts.

Despite these steps, the LLDC's overall value is falling at an alarming rate. While at the first year of its establishment the LLDC assets were greater than its liabilities by £161 million, this overall value has been eroded. Between 2014-15 and 2019-20 the value of the LLDC fell by £381 million: over this period the value of the organisation changed from a positive £210 million position to a negative £171 million position, with a 57 per cent increase in net liabilities of £63 million in the last financial year.

Figure 6: Increasing LLDC net liabilities over time (£m)



Source: LLDC Annual Reports, 2012-13 to 2019-20.

This position is very likely to worsen over coming years. Even in the best-case scenario, the Stadium is set to lose £8 to £10 million annually. East Bank costs were escalating before the pandemic and are only set to further increase, largely in response to construction delays. The East Bank value proposition relies heavily on the viability and growth prospects of arts and cultural institutions. Through no fault of the LLDC, the business cases of such institutions are riskier in the post-pandemic world. Moreover, projected capital receipts from housing developments may not be realised, especially in light of the pandemic's impact on the housing market. Finally, achieving the 50 per cent affordable home target on new sites will require substantial subsidy. Ultimately the LLDC is becoming an increasingly risky venture for Londoners.

Recommendation 5: The LLDC must publish its transition plan.

Chapter seven – Old Oak and Park Royal Development Corp

Recommendation 1

The OPDC must work with Network Rail and the Department for Transport to prioritise the agreement for the transfer of public sector land holdings in its 2021-22 Budget.

Recommendation 2

The OPDC must develop and publish an infrastructure plan for development of the 'Western Lands' to identify its funding requirement in its 2021-22 Budget.

Recommendation 3

The OPDC must learn the lessons from its failure to secure funding from its HIF bid and apply these to a bid for funding from the National Home Building Fund.

Recommendation 4

The OPDC must publish a timetable to develop a new credible and sustainable plan with a clearer focus in the short to medium term on Park Royal. The plan should accompany its Final Draft 2021-22 Budget and set out what it can realistically achieve and when.

Recommendation 5

In June 2016 the Mayor of London commissioned the GLA to undertake a review of the strategic direction and work programme of the OPDC. Given recent events, the Mayor should talk to the boroughs involved and consider a review examining if the OPDC should continue in its current form.

Introduction

The Old Oak and Park Royal Development Corporation (OPDC) is the Local Planning Authority and regeneration agency for a large site in north west London. Its aim is to capitalise on the HS2 and Crossrail investments in the area to create a 'whole new centre and community for West London.'[113]

In December 2019, the OPDC announced it was abandoning the plans it had been developing for the previous four years for Old Oak North (OON)—a site that was up until then considered key to unlocking regeneration in the area—in favour of a 'more strategic scale of regeneration' in an area referred to as the 'Western Lands'.[114] It will now be focusing on developing key sites to the west, north west and south

[113] Introduction to the Old Oak and Park Royal Development Corporation.
[114] Mayor's 2020-21 Budget

west of the new HS2/Elizabeth line/GWR interchange at Old Oak Common for residential and mixed use.[115] The new plan includes 'a combination of several early win/opportunity sites, and the medium to longer-term release of major rail sites.'[116]

The OPDC has claimed that the new approach 'has a number of major advantages over the previous focus on [Old Oak North]'. These, it says, 'include a more natural connectivity with the main station access point and associated concourse and public realm; taking advantage of a number of major sites that are in public ownership via HS2/Department for Transport and Network Rail … ; and an existing level of infrastructure and connectivity that is much better than OON.'[117]

Despite the change of direction and the different layout of the area, the OPDC's target for new homes and jobs remains unaltered from the original plans. In an October update to the OPDC Board, a Local Plan update confirmed that the new strategy 'has the potential to support delivery of over 20,000 homes, up to 60,000 jobs over the course of our Local Plan period.'[118]

The OPDC has been at pains to emphasise to the Committee that developing the new site will be 'a very difficult project', indeed the 'most difficult, challenging project [David Lunts, OPDC's now permanent Chief Executive Officer] can recall'[119]

Land acquisition

With no land holdings of its own, and the recent failure to acquire land from Cargiant, acquiring land that can be viably developed is a priority for the OPDC. 60 per cent of the planned homes are on sites that are currently designated Strategic Industrial Land (SIL). This land is in high demand and therefore expensive to re-zone for residential and mixed-use development. To achieve this, the OPDC will have to promote industrial intensification of land in OON so as to protect overall industrial and employment capacity in line with London Plan policies. The OPDC has proposed that it will achieve this via a 'multi-level intensification' strategy.[120]

Securing the land, much of which is owned by the Department for Transport, Network Rail and HS2 is likely to be a challenge. There have been ongoing setbacks to the negotiations for the acquisition of the Network Rail land attributed to engineering issues and a lack of detailed plans from the OPDC.[121] Much of the Network Rail land will not be available for development for 'a number of years' due to its association with HS2 worksite activities.[122] In 2016, the OPDC signed a Memorandum of Understanding with the Department for Transport around the use of its land holdings, but as the OPDC has never secured the budget to acquire the land, this agreement is in principle only. Landowner engagement and stakeholder discussion was scheduled to be completed by December 2020.

[115] Western Lands and Local Plan Modifications Update, 13 October 2020, page 2
[116] Western Lands and Local Plan Modifications Update, 13 October 2020, page 3
[117] Western Lands and Local Plan Modifications Update, 13 October 2020, page 3
[118] Western Lands and Local Plan Modifications Update, 13 October 2020, page 1
[119] Budget and Performance Committee Meeting 14 October 2020, minutes, page 41, page 26
[120] Presentation to OPDC Board, 13 October 2020, page 5
[121] Budget and Performance Committee - 11 June 2019
[122] Budget and Performance Committee Meeting, Monday 6 January 2020

Recommendation 1: The OPDC must work with Network Rail and the Department for Transport to prioritise the agreement for the transfer of public sector land holdings in its 2021-22 Budget.

The capital funding for infrastructure development of the site

On 14 October 2020, the OPDC conceded that the ultimate cost of infrastructure development of the Western Lands was likely to be "in the hundreds of millions," although it could not give a precise figure.[123] The original OON plans were valued at £1.5 billion in a Development Infrastructure Funding Study in 2015. [124]

The OPDC has not yet secured any of the necessary capital funding, although it intends to submit a bid to the National Home Building Fund (formerly the Single Housing Infrastructure Fund).[125] In an October update to the Board, the OPDC confirmed it is now 'well placed to begin work on a bid to [National Home Building Fund] … for funding and investment support for [the] Western Lands strategy' and has requested internal approval for expenditure to support the necessary technical work.[126]

However, any funding from central Government is likely to be highly competitive. In the post-pandemic era and with pledges around the 'levelling-up agenda', the Government may focus funding on projects in the north of England. The OPDC's previous HIF bid was withdrawn after the Planning Inspector found the plans for land allocation were unviable. While the OPDC has hopefully learnt from its failed HIF bid, it must demonstrate that it is able to assemble the necessary wide-ranging stakeholder support and evidence of viability which will be necessary to win the National Home Building Fund.

Recommendation 2: The OPDC must develop and publish an infrastructure plan for development of the 'Western Lands' to identify its funding requirement in its 2021-22 Budget.

[123] Budget and Performance Committee Meeting 14 October 2020, minutes, page 46
[124] OPDC's Development Infrastructure Funding Study (2015)
[125] Announced in the 2020 Budget, the SHIF is a new long-term fund to unlock new homes in areas of high demand across the country by funding the provision of strategic infrastructure and assembling land for development, HM Treasury, Budget 2020, March 2020, HC 121, page 80
[126] Western Lands and Local Plan Modifications Update, 13 October 2020, page 4

Recommendation 3: The OPDC must learn the lessons from its failure to secure funding from its HIF bid and apply these to a bid for funding from the National Home Building Fund.

The OPDC Local Plan

Finally, the OPDC cannot further progress its plans for the Western Lands without an approved Local Plan. Significant sections of the draft Local Plan were rejected by the Planning Inspector in his interim findings in September 2019, in which the OPDC's plans for allocation of land at OON were found unviable due to rising industrial land values,[127] and the OPDC was directed to reduce the homes and jobs targets by 30 per cent and 7 per cent respectively. [128]

The OPDC's Local Plan will need significant revision in order to be accepted by the Planning Inspector. A significant amount of work is required to meet its own self-imposed March 2021 deadline, including reaching land acquisition agreements with a range of key landowners on the development sites, and any sites required for infrastructure development, as well as securing a significant amount of infrastructure capital. [129]

Recommendation 4: The OPDC needs to publish a timetable to develop a new credible and sustainable plan with a clearer focus in the short to medium term on Park Royal. The plan should accompany its Final Draft 2021-22 Budget and set out what it can realistically achieve and when.

Recommendation 5: In June 2016 the Mayor of London commissioned the GLA to undertake a review of the strategic direction and work programme of the OPDC. Given recent events, the Mayor should talk to the boroughs involved and consider a review examining if the OPDC should continue in its current form.

[127] Western Lands and Local Plan Modifications Update, 13 October 2020, page 2
[128] OPDC Local Plan Examination 2019, Interim Findings on viability of Cargiant site proposal
[129] Local Plan Examination Process, London.gov.uk , Western Lands and Local Plan Modifications Update, 13 October 2020, page 12

Appendix 1

The Mayor's 2021-22 Consultation Budget

Total gross revenue and capital expenditure	Forecast Outturn 2020-21 £m	Budget 2021-22 £m	Change £m	Change %
Revenue:				
GLA: Mayor	1,687.1	1,669.1	-18.0	-1%
GLA: Assembly	7.7	7.0	-0.7	-9%
MOPAC	3,866.8	4,009.0	142.2	4%
LFC	492.9	489.3	-3.6	-1%
TfL	7,111.2	7,525.8	414.6	6%
LLDC	56.8	58.8	2.0	4%
OPDC	6.2	6.5	0.3	5%
Total revenue	**13,228.7**	**13,765.5**	**536.8**	**4%**
Capital:				
GLA: Mayor	1,684.4	2,145.7	461.3	27%
GLA: Assembly	0.0	0.0	0.0	n/a
MOPAC	333.9	385.1	51.2	15%
LFC	32.8	57.6	24.8	76%
TfL	2,080.1	2,821.5	741.4	36%
LLDC	171.5	227.4	55.9	33%
OPDC	0.0	0.0	0.0	n/a
Total capital	**4,302.7**	**5,637.3**	**1,334.6**	**31%**
Grand total revenue and capital	**17,531.4**	**19,402.8**	**1,871.4**	**11%**

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Appendix 2

Letter from Susan Hall to David Bellamy 9 December 2020

LONDONASSEMBLY

City Hall
The Queen's Walk
More London
London SE1 2AA
Tel: 020 7983 4000
www.london.gov.uk

Susan Hall AM
Chairman of the Budget and Performance Committee

David Bellamy
Mayor's Chief of Staff
(Sent by email)

9 December 2020

Dear David,

On behalf of the Committee, may I record my thanks to you and your senior colleagues for taking the time to attend the Committee's meeting on 24 November and answer Members' questions.

We appreciate the scale of the challenge you face in making savings of £38 million from the GLA:Mayor budget and can see that a large amount of work has already gone into thinking through how expenditure within the GLA:Mayor budget fits strategically with London's recovery plans for COVID-19. In that context, the Committee offers the following points as its response to the GLA:Mayor budget submission for 2021-22:

1. Setting out the GLA:Mayor budget according to the nine Missions agreed by the London Recovery Board clearly has its benefits and it represents a public statement of London's commitment to prioritising its recovery from COVID-19. We would question, though, whether:
(i) The entirety of the GLA:Mayor budget needs to be handled in this way. We imagine that policy functions, which already have well defined programmes and operate within certain existing and well known parameters offering little opportunity for flexibility, do not fit easily with the approach being taken. Furthermore, it is not clear to us at this stage as to how resources will be prioritised between Missions, noting that Missions will inevitably have different levels of resourcing and that the degree of flexibility available within a shrinking budget will naturally be severely limited.
(ii) The approach taken should be time limited and labelled as such.

(iii) There must surely be a danger that it becomes an exercise in recategorising and redescribing a series of items of expenditure which would have happened in the same way and to the same level regardless of the nature of their classification within the nine Missions. We know that this is not your intention but it could easily become a paper exercise without any obvious benefit to Londoners.

2. We note with interests the comments the Chief Officer made about how redesigning the budget according to Missions has brought about improvements to working practices between GLA teams. That is welcome and laudable. However, it needs to be seen in the light of the following questions:
(i) Have the inputs - which predominantly comprise senior GLA staff time and are therefore costly - justified the outputs or outcomes from this exercise?
(ii) Anecdotal reflections are fine as far as they go but what evidence is there of improved working across teams?
(iii) What actual benefits have arisen for Londoners as a result of the missions approach? What is being delivered in concrete terms which would not otherwise be delivered?

3. Now that we have had a chance to look at the submissions from the GLA's functional bodies, it would seem that the functional bodies have not adopted the same recovery centred approach to their budgets which the GLA has. We appreciate that the role of the bodies vary - particularly in terms of the blue light services - and would not expect every approach to be the same but it nonetheless appears odd that TfL or the MDCs, for example, have not amended their budget presentations in the same way as the GLA has. It will be interesting to see the extent to which the London boroughs follow the GLA's lead in this matter.

4. On the details of the savings, it was noted that the corporate savings appear to be mainly tentative at this stage and disappointing that the directorate savings remain completely outstanding. The Committee would like to find a way forward which would allow us to see the detail of the GLA:Mayor budget for scrutiny purposes; which has not been possible via the GLA:Mayor budget submission this year. I ask that you write to me at the first available opportunity - and within a week of receiving this letter - to set out:
(i) When you intend to share the full GLA:Mayor budget, noting that the various iterations of the Group budget in December, January and February are insufficiently detailed in this respect.
(ii) How you intend to identify those programme areas earmarked for savings and the expected impact of those savings (for example, on events).
(iii) How you intend to identify the staffing impacts as part of a worked through HR strategy for the whole organisation outside of the Assembly Secretariat.

5.. The Committee is concerned that the lack of detailed savings proposals means the Assembly cannot currently undertake year-on-year comparisons across directorates. We appreciate Appendix B has been provided to allay these concerns – though the figures provided are indicative and savings have only been provided on a pro-rata basis. We further accept that uncertainty over business rates and council income makes it challenging to provide concrete savings proposals. However, the Committee needs to see further details on programme level savings so that the Assembly can provide the requisite level of scrutiny to the budget process. We trust that this will be corrected in due course as part of sharing a full GLA:Mayor budget under 4(i) above.

I would be grateful if you could provide this information by **Friday 18 December**, with the exception of item 4, which we would like to see sooner. I look forward to your response. Please copy Laura Pelling, Principal Committee Manager, into your response via the following email address: Laura.pelling@london.gov.uk.

Yours,

Susan Hall AM
Chairman of the Budget and Performance Committee

Appendix 3

Letter from David Bellamy to Susan Hall 4 January 2021

MAYOR OF LONDON

Susan Hall AM
Chairman of the Budget and Performance Committee
City Hall
London
SE1 2AA

Our ref:

Date: 4th January 2021

Dear Susan,

Thank you for your letter of 9 December following the Budget and Performance Committee's meeting on 24 November. I set out replies under the numbering used in your letter.

1(i). Given its huge impact on Londoners, the pandemic has barely left any aspect of the GLA's work unaffected. The scale of the impacts, including the anticipated loss in funding, are such that we need to maximise the resources applied to London's recovery and challenge all expenditure that does not clearly do this.

The Executive Director of Resources replied to you letter of 7 December to him on 9 December in some detail about how the budget process is changing to support London's recovery. Clearly there are core GLA functions that principally support other services which help promote the recovery. However, it is right that such functions recognise and adapt what they do to this overriding objective. As you rightly point, resources to support Missions are scarce and the GLA's discretion is limited by hypothecated funding. Final decisions on the allocation of resources between Missions, Foundations and Core functions will not be made until billing authorities returns are received and analysed in February.

1(ii). As you will be well aware, London's recovery from the pandemic is not anticipated to be quick or easy. There are many medium-term and long-term issues that will need to addressed. Clearly the exact recovery framework will evolve over time and will remain flexible to respond to events, including the priorities of the administration elected in May. Clearly it will not last forever, however it is not possible to put a time frame on it at this juncture.

1(iii). Your comment that this new approach "could easily become a paper exercise without any obvious benefit to Londoners" misunderstands the depth of the commitment made and the work that has been undertaken. Our approach to re-focus our programmes and staffing resources to support London's recovery represents a major departure in how the GLA is organised concentrating on the outcomes that are to be delivered from the Missions.

2(i). I believe the input of senior GLA staff time will justify the outputs and outcomes that are planned to be achieved. It needs to be recognised that the scale of anticipated savings required in the GLA: Mayor budget means that a significant investment of senior staff time was necessary, regardless of how the budget was presented.

2(ii). The missions-based approach is driving increased integration and learning across teams and programmes within the GLA, and is supporting the development of a number of new initiatives of benefit to Londoners. These include the extension of the Culture at Risk model to community infrastructure, work across the GLA's environment and education and skills units on proposals for a green skills academy, and the integration of community and environmental objectives in the Mayor's Grow Back Greener Fund.

2(iii). The mission-based London Covid-19 Recovery Programme is focused how the capital can bounce back over the medium- to long-term from the scarring caused by the pandemic. However, the close collaboration that it has fostered both across the GLA and between the GLA and boroughs has also supported the delivery of projects to address more immediate priorities. This includes the collaborative work on licensing and enforcement to support business and hospitality reopening in the summer, the provision of new emergency funding for community groups, small businesses and cultural venues, including through the London Community Response Fund and other schemes such as the Mayor's Back to Business and Culture at Risk Funds, and the development with London's Boroughs and business community of a clear roadmap to the reopening of London's economy.

3. The Mayor's Group Budget Consultation Document was published on 16 December. You will see that each functional body has addressed the issue of how their budget supports London's recovery. The extent to which each functional body can and should revise their approach depends on the relevance of their operations to London's Recovery Missions which of course varies. The Recovery Programme is working with 'anchor institutions' – major London public sector organisations, including the larger functional bodies – on how they can corporately contribute to the realisation of the Missions.

4(i). The Committee will appreciate that we are bound by the statutory GLA Group budget process, including in particular the returns from the billing authorities that determine Group income levels. This means that the level of income the GLA: Mayor budget is based on will not be known, even privately, until w/c 8 February.

This will be published on 17 February as part of the GLA Group Final Draft Budget. Of course, it will only become final following any Assembly votes on council tax allocations on 25 February, and the subsequent Mayoral decision confirming the business rates allocations and capital spending plan.

It is then intended to finalise the GLA: Mayor budget in w/c 1 March, and submit it to the Mayor for consideration following the Corporate Investment Board meeting on 8 March. We would intend to publish as quickly as possible following that meeting and the Mayor's approval.

Work is already underway on the detailed decisions required for the GLA: Mayor budget and this will continue throughout January, in order that final decisions can be taken quickly as information about funding emerges in February. The speed at which this can be done will be impacted by the concurrent finalisation of the GLA: Group Final Draft Budget and the quarterly GLA and functional body performance reviews, all of which will call significantly on my time, and that of the Executive Director of Resources.

I accept that the ongoing uncertainty about income levels inhibits Assembly scrutiny, and regret this. Unfortunately I can see no way of accelerating the timescale for the production of the GLA: Mayor budget within the statutory framework: we cannot provide information until decisions have been made and documented, and the billing authority returns are a pre-requisite for this.

4(ii). The existing programmes that will require savings to be made will be determined once the final GLA Group budget is agreed on 25 February, based on the level of resources allocated by it and the work done in advance, described above. This information will then be included in the full GLA: Mayor budget.

4(iii). Similarly, planned staffing savings will be determined as the GLA: Mayor budget is finalised. In addition, in accordance with the agreed procedures with the Assembly, the GLA Oversight Committee will be consulted on these staffing savings before the Chief Officer takes any decision to proceed.

5. I refer to the Executive Director of Resources reply to you as mentioned at paragraph 1 above. He has confirmed that information will be provided in a comparable fashion to allow scrutiny to take place. Further, he has offered to discuss the detailed format of the information in the GLA: Mayor's final budget with your officers to ensure this information is made available.

Yours sincerely,

D. Bellamy

David Bellamy
Chief of Staff

Cc Gino Brand, Assembly Secretariat

Other formats and languages

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Chinese

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Hindi

यदि आपको इस दस्तावेज का सारांश अपनी भाषा में चाहिए तो उपर दिये हुए नंबर पर फोन करें या उपर दिये गये डाक पते या ई मेल पते पर हम से संपर्क करें।

Vietnamese

Nếu ông (bà) muốn nội dung văn bản này được dịch sang tiếng Việt, xin vui lòng liên hệ với chúng tôi bằng điện thoại, thư hoặc thư điện tử theo địa chỉ ở trên.

Bengali

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

Greek

Εάν επιθυμείτε περίληψη αυτού του κειμένου στην γλώσσα σας, παρακαλώ καλέστε τον αριθμό ή επικοινωνήστε μαζί μας στην ανωτέρω ταχυδρομική ή την ηλεκτρονική διεύθυνση.

Urdu

اگر آپ کو اس دستاویز کا خلاصہ اپنی زبان میں
درکار ہو تو، براہ کرم نمبر پر فون کریں
یا مذکورہ بالا ڈاک کے پتے یا ای میل
پتے پر ہم سے رابطہ کریں۔

Turkish

Bu belgenin kendi dilinize çevrilmiş bir özetini okumak isterseniz, lütfen yukarıdaki telefon numarasını arayın, veya posta ya da e-posta adresi aracılığıyla bizimle temasa geçin.

Arabic

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

Punjabi

ਜੇ ਤੁਸੀਂ ਇਸ ਦਸਤਾਵੇਜ਼ ਦਾ ਸੰਖੇਪ ਆਪਣੀ ਭਾਸ਼ਾ ਵਿਚ ਲੈਣਾ ਚਾਹੋ, ਤਾਂ ਕਿਰਪਾ ਕਰਕੇ ਇਸ ਨੰਬਰ 'ਤੇ ਫ਼ੋਨ ਕਰੋ ਜਾਂ ਉਪਰ ਦਿੱਤੇ ਡਾਕ ਜਾਂ ਈਮੇਲ ਪਤੇ 'ਤੇ ਸਾਨੂੰ ਸੰਪਰਕ ਕਰੋ।

Gujarati

જો તમારે આ દસ્તાવેજનો સાર તમારી ભાષામાં જોઈતો હોય તો ઉપર આપેલ નંબર પર ફોન કરો અથવા ઉપર આપેલ ટપાલ અથવા ઈ-મેઈલ સરનામા પર અમારો સંપર્ક કરો.

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City Hall
The Queen's Walk
More London
London SE1 2AA

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