



**Peter Fortune AM**  
**Chairman of the Budget and Performance Committee**

(Sent by email)

29 September 2022

Dear Mr Mayor

I am writing to you on behalf of the Budget and Performance Committee following our Question and Answer sessions with senior GLA, Transport for London (TfL), Metropolitan Police Service (MPS) and Mayor's Office of Policing and Crime (MOPAC) officers on the GLA Group's financial performance for 2021-22. We acknowledge and appreciate the hard work of the GLA and functional body financial officers on dealing with the challenges from the impact of the pandemic and on working towards a long term financial agreement for TfL.

However, there are important lessons to be learned from the last financial year to improve both the effectiveness and the transparency of the delivery of your budget. The recommendations in this letter cover budget variances and reporting issues. These are numbered and reproduced at the end to aid the ease of your response. In terms of potential lessons for the future, this is particularly relevant with the 2023-24 Budget currently in development.

### **Budget variances – operating expenditure**

Total MOPAC reserves on 31 March 2022 were £569.4 million<sup>1</sup>. Recent MOPAC financial performance does not suggest that this reserve will be utilised in the short term. We wrote to the MPS on the 3 August 2022 requesting a breakdown of what projects would be allocated funding from the earmarked reserves, but have yet to receive a response. The MPS has also confirmed to us that it currently has a healthy revenue budget resulting from the funding for the officer growth programme and the challenge the MPS had in 2021-22 that will continue into 2022-23 is spending all of its current funding.

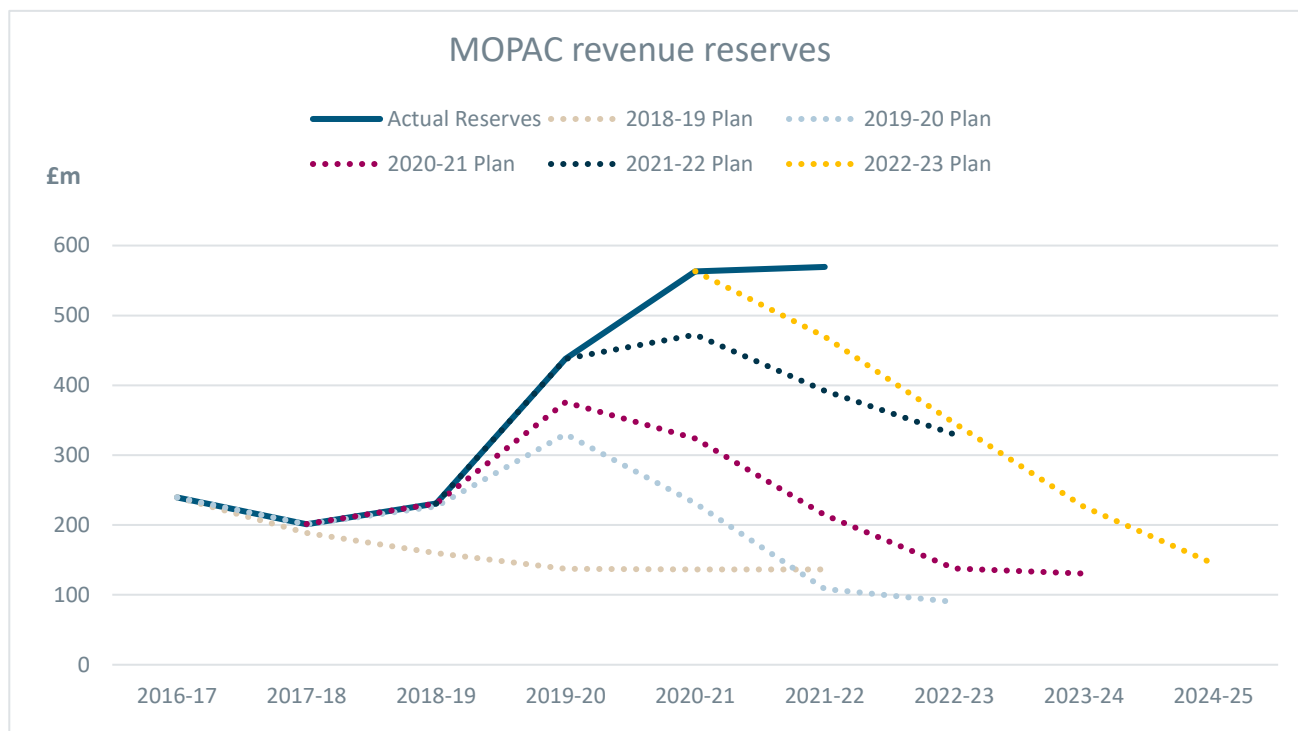
Your 2022-23 GLA Group Budget anticipates a reduction in MOPAC's reserves in 2022-23 of £124 million, and then a further reduction of £200 million by the end of 2024-25.<sup>2</sup> This follows similar

---

<sup>1</sup> [Appendix 5 – MOPAC Quarterly Performance Update Report, Quarter 4 2021-22.pdf](#)

<sup>2</sup> 2022-23 GLA Group Budget P44 [Date \(london.gov.uk\)](#), March 2022

plans to utilise these reserves for the previous four years. The following chart shows the planned reduction against the actual increase in reserves over the last five years.



**Source:** Mayor’s final budget for 2018-19 to 2022-23 [The Mayor’s budget | London City Hall](#) and MOPAC quarterly performance reports [MOPAC publications | London City Hall](#)

**The Committee recommends that the overall level of MOPAC’s revenue reserves are reviewed as part of the 2023-24 budget setting process. MOPAC’s current plans for the reserves should be assessed for deliverability and, where appropriate, the reserves be considered for alternative uses.**

The Committee notes that TfL achieved operating costs for 2021-22 that were £453 million below its 2021-22 budget and that these savings were achieved without impacting services. We note that £146 million of this resulted from the slippage and deferral of implementation costs to deliver further savings, and wait to see how these progress during 2022-23. **The Committee would like to understand how the 2022-23 operational savings were made without impacting services when the London Underground is only operating at around 84 per cent compared with pre-pandemic levels nearer 95 per cent.**<sup>3</sup>

TfL’s capital underspend included £185 million for capital renewals. This expenditure ensures the maintenance of a state of good repair of TfL’s assets. This includes maintenance of its rolling stock and road network, and the addressing of any backlog of renewals that has built up over previous years. This Committee was concerned to hear that the state of good repair has fallen on the carriageways that TfL operates and maintains from between 90 to 95 per cent to 87 per cent. TfL compared the 87 per cent to the state of good repair to the target that local authorities use for ‘C’ roads. **The Committee recommends that TfL prioritises the backlog of road repairs.**

<sup>3</sup> P5 2022-23 and P12 2019-20 percentage of schedule operated [Underground services performance - TfL](#)

As part of its funding agreement with government TfL commissioned an independent review of its pension scheme, which was carried out by Sir Brendan Barber. The outcome of this review was published on 28 March 2022, and includes modelling of various pension change options. These include:

- options for modified final salary schemes showing savings to TfL in the range of £79.3 million to £182.4 million a year;
- options for replacement with Career Average Revalued Earnings (CARE) schemes showing potential cost reductions for TfL ranging from up to £154.4 million a year, to a cost increase of £23.1 million a year

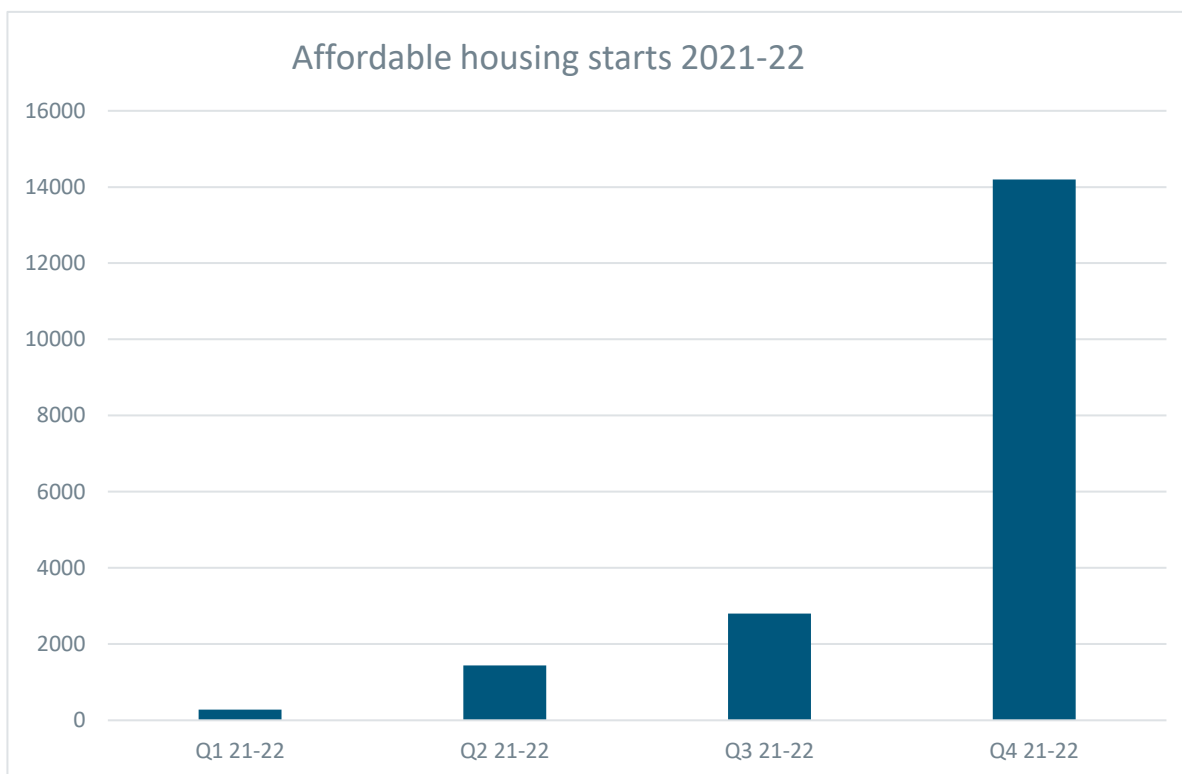
The 30 August 2022 TfL Long-term Funding Settlement recognised that TfL's pension scheme is expensive, outdated and in need of modernisation. Under the agreement TfL will submit options for future service reform which will aim to reduce future service liabilities by circa £100 million. At the meeting of this Committee on 14 January 2022 when the pension scheme was scrutinised it was clear that changes to the scheme can only be made with the agreement of members of the scheme.<sup>4</sup> As such the Committee will seek clarity from TfL and the DfT on how the new funding deal anticipates that changes to the current pension scheme will be made. **The Committee would like to be kept informed of developments in this area.**

### **Budget variances – capital expenditure**

The Committee was encouraged to hear about the 18,722 affordable homes starts, but we are concerned over the profile of delivery during the year which is very heavily concentrated in the final quarter as highlighted in the chart below. The Committee is also concerned about the late decision to spend £202 million in the final quarter to increase the level of affordable home starts. This figure was not included in the Q3 2021-22 full year forecast. In the first three quarters, the Housing and Land capital expenditure totalled £269 million. In the final quarter of 2021-22 this was increased by £637 million. The Committee is concerned that such a large concentration of spend at the end of the financial year suggests a lack of planning throughout the course of the year, and/or a rush to spend without the usual control process. **The Committee recommends a review of the profile of delivery of affordable home starts and would like to see how the unanticipated £202 million funding in the final quarter of 2021-22 delivered value for money.**

---

<sup>4</sup> P30 [Budget and Performance Committee, 14 January 2022](#)



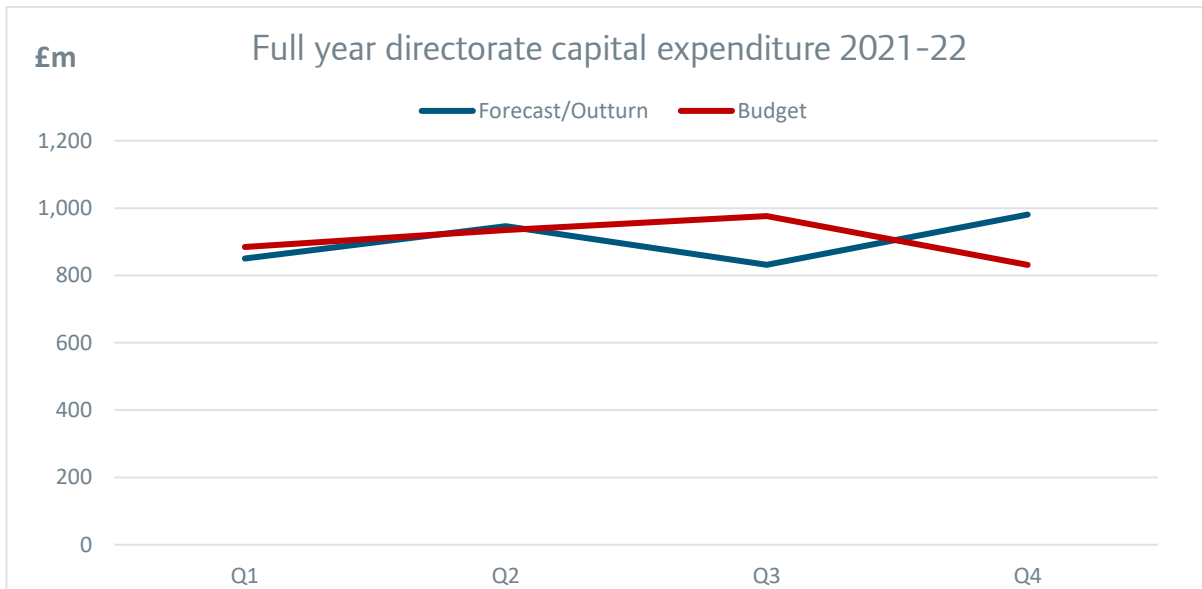
Capital expenditure for the MPS was £247 million, which was £138 million - or 36 per cent - below the original budget of £385 million. This predominantly consisted of underspends for property services of £55 million, Digital Policing of £43 million and Transformation of £46 million. The MPS attributes this to a 'bit of optimism' when putting the programme of 2021-22 together. The Committee is encouraged to hear that the MPS is trying to remove some of that "optimism" and is working to ensure that the MPS gets the timing right on the projects in the capital programme. However, the Committee is concerned that there is limited evidence of this in the 2022-23 capital expenditure budget for MOPAC of £396 million.<sup>5</sup> This represents a 60 per cent increase in the level of spend compared to that achieved in 2021-22. **The Committee recommends that MOPAC reviews its capital programme for 2022-23 now, and reallocates any overly optimistic budget allocation in its Q3 2022-23 forecast. The Committee also recommends that MOPAC consider overprogramming its capital programme for future years to ensure delivery of a full capital programme each year.**

### Reporting issues

This Committee raised concerns about the £26 million underspend on Rough Sleeping and Other Housing Support and the £23 million underspend in the Adult Education Budget (AEB) and was encouraged to hear that no services were reduced as a result. However, given the underspending, the Committee remains unconvinced that the full potential from these budgets is being delivered. We understand from the GLA officers that the AEB underspend is not a concern but more a function of the allocation of funding by academic years. **The Committee recommends that the GLA's performance reporting is reviewed to ensure that material variances of expenditure against budget are supported by a clear commentary so that the nature of any underlying issues is correctly understood.**

<sup>5</sup> 2022-23 Capital Spending Plan P7 [Date \(london.gov.uk\)](https://www.london.gov.uk/press-releases/major/capital-spending-plan-2022-23), February 2022

A level of variability in the movement of the full year forecast and full year budget can be seen in the second half of 2021-22 as the following chart highlights. The profile of the directorate capital expenditure is predominantly driven by Housing and Land’s capital expenditure which makes up more than 90 per cent of directorate capital expenditure. At the Budget and Performance Committee meeting on 14 July 2022, GLA officers were unable to satisfactorily explain this divergence of forecast and budget. **The Committee recommends a review of the GLA’s quarterly forecast and budget amendment processes, and that these are revised so that the changes in forecast and budget follow a logical relationship.**



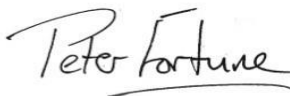
TfL’s capital funding in 2021-22 at £1,815 million was £429 million greater than capital expenditure of £1,386 million for 2021-22. This surplus is anticipated by TfL to be applied to projects in delivery in 2022-23 and in future years. **This Committee recommends that TfL sets out clearly in its future quarterly reporting how significant capital funding surpluses will be used.**

This review of the Q4 2021-22 results has proved unnecessarily challenging due to the lack of consistency between the published budget and quarterly reports. This includes the GLA report as well as the functional body reports. **To assist this Committee in carrying out its duties more efficiently and effectively can you set out for each functional body and the GLA:Mayor an excel spreadsheet showing the budget and forecast at each quarter from Q1 2019-20 to Q1 2022-23 in the same format and level of detail as the Objective analysis financial tables published in your Final Consolidated budget and the Capital Spending Plan tables in your Capital Spending Plan.**

Going forward some of the challenges experienced by this committee would be lessened with a more effective sharing of financial information. **This Committee requests that at the point of submission the monitoring reports are supported by Excel versions of the key financial tables.**

We appreciate the GLA officers' attendance and engagement with the Budget and Performance Committee, and we look forward to assessing the 2023-24 Budget in the coming months with the above reflections in mind. I look forward to your response to this letter by **28 October**.

Yours sincerely,

A handwritten signature in black ink that reads "Peter Fortune". The signature is written in a cursive style with a horizontal line underneath the name.

Peter Fortune AM

**Chairman of the Budget and Performance Committee**

## Recommendations

### Budget variances – operating expenditure

1. The Committee recommends that the overall level of MOPAC's revenue reserves are reviewed as part of the 2023-24 budget setting process. MOPAC's current plans for the reserves should be assessed for deliverability and, where appropriate, the reserves be considered for alternative uses.
2. The Committee would like to understand how the 2021-22 operational savings were made without impacting services when the London Underground is only operating at around 84 per cent compared with pre-pandemic levels nearer 95 per cent.
3. The Committee recommends that TfL prioritise the backlog of road maintenance.
4. The Committee would like to be kept informed of developments in this area..

### Budget variances – capital expenditure

5. The Committee recommend a review of the profile of delivery of affordable home starts and would like to see how the unanticipated £202 million funding in the final quarter of 2021-22 delivered value for money.
6. The Committee recommends that MOPAC reviews its capital programme for 2022-23 now, and reallocates any overly optimistic budget allocation in its Q3 2022-23 forecast.
7. The Committee also recommends that MOPAC consider overprogramming its capital programme for future years to ensure delivery of a full capital programme each year.

### Reporting issues

8. The Committee recommends that the GLA's performance reporting is reviewed to ensure that material variances of expenditure against budget are supported by a clear commentary so that the nature of any underlying issues are correctly understood.
9. The Committee recommends a review of the GLA's quarterly forecast and budget amendment processes and that these are amended so that the changes in forecast and budget follow a logical relationship.
10. This Committee recommends that TfL set out clearly in its quarterly reporting how significant capital funding surpluses will be used.
11. To assist this Committee carry out its duties more efficiently and effectively can you set out for each functional body and the GLA:Mayor an excel spreadsheet showing the budget and forecast at each quarter from Q1 2019-20 to Q1 2022-23 in the same format and level of detail as the Objective analysis financial tables published in your Final Consolidated budget and the Capital Spending Plan tables in the your Capital Spending Plan.
12. This Committee requests that at the point of submission the monitoring reports are supported by Excel versions of the key financial tables.