

Pre-Budget Report
Budget and Performance Committee
October 2008



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Greater London Authority
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Role of the Budget & Performance Committee

The Budget & Performance Committee scrutinises the Mayor's budget proposals and holds the Mayor and his staff to account for financial and general performance.

The committee has also looked at other budget issues like the cost of neighbourhood policing, and bus and tube fares.

The terms of reference for this investigation were:

- What are the likely effects of the Mayor's decisions, actions, staffing changes and announced plans up to August 2008, on the expenditure, income, budgets and performance of the GLA group?
- What are the implications of the work and findings of the Forensic Audit Panel?
- How has the new administration gone about assessing the budgets and performance of the GLA group and how are the GLA and functional bodies planning to reflect the Mayor's priorities and his budget commitments in their work towards the 2009/10 budget?

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Foreword



The fact that we have never previously experienced a change of Mayor necessarily means that we are all learning a new set of rules. First about how the Mayor translates into action his aspirations and manifesto commitments, and how we judge and assess this. And second about how the bureaucracy responds to and interprets the new directions and imperatives, such as for 'Value for Money', and brings about change. There is a strange contradiction at present about the new administration – on the one hand most anxious to ideologically distinguish itself from the previous regime but on the other hand still very vague about the new priorities it will follow.

That the working title for this work was 'The First 100 Days', while this foreword is being written on day 157 with much still unclear, perhaps illustrates that either we were wildly optimistic about the pace of change or that the new administration has not made quite the progress it set out to make. It is probably a bit of both. We nevertheless now note that progress is being made, the direction of change in the core GLA is gradually emerging, that the Functional Bodies with their new boards are busily developing their new plans and that in the next few months, as next year's budgets are drawn-up, a greater clarity will emerge. This will set the course of this Mayoral term, and will answer the following questions:

- What will be the hard choices?
- If new initiatives are to be funded, what old initiatives will cease to be funded?
- If Council Tax is to be kept down, is there a consequential series of savings, and where will these be?
- What does the new administration mean by Value for Money? (a common mantra that can mean almost anything)
- Can front line services be protected at a time of greater restraint, and economic uncertainty?

Our work has highlighted a number of areas where we think the new administration needs to be clearer, and suggestions that will help to achieve this. These can be found in the body of the report and listed at its end. The key ones are:

- That a definition is needed for 'Value for Money'. The Mayor has said he wants value for money and so he has proposed significant reductions in the spending plans made by the previous Mayor. Value for money is not just about spending less; it is about the balance between what you spend and what you get for it. By what test of this will the administration judge itself and seek to be judged?
- That greater clarity is needed on the new Mayor's priorities and this should be provided in the emerging budgets and corporate plans, with business objectives and targets. Not only will this help us and the wider world to judge progress but it will also help the

Mayor's team to judge their own success and maintain direction. There does need to be clear guidance about Mayoral initiatives because there is little spare money for them.

- That the pressure on Council Tax, with a desire to see no increase in the precept will place great pressure on GLA group budgets, not least as this adds to the pressures already on the GLA group budget. Significant efficiency savings and/or reductions in activity will be required. The Mayor must make clear in his budget proposals where the efficiencies will be and what activities will be reduced or stopped, as well as his new initiatives and how they will be paid for. Other areas where more information is needed include Olympic costs, borrowing costs and major projects such as Crossrail and upgrading the Tube.
- Of particular note, there are pressures on the two largest elements of the Mayor's Council Tax precept – for Fire and Emergency Planning and the Metropolitan Police Service. Given that the previous administration used the precept to enhance these budgets, particularly to fund an expansion in police numbers, the Mayor should make clear his direction of travel - how and at what level he will protect or set those services.

Our scrutiny has highlighted that much remains to be done but that is perhaps the nature of scrutiny. We are grateful for the cooperation we have received from officers and the administration at a busy time. We wish all success to the new administration in setting its direction of travel and priorities. We in turn will vigorously examine and as appropriate challenge its work, which is our role. May I thank my colleagues on the committee, and particularly my Deputy Chair, for their work.



John Biggs AM
Chair, Budget & Performance Committee

Pre-Budget Report 2008

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Pre-Budget Report 2008

Executive summary

- 1.1 This report assesses the first four months of the new administration and looks ahead to the Mayor's budget proposals for 2009/10 to 2011/12. It sets out the key pressures that will affect the Greater London Authority (GLA) group's financial assumptions and plans, and highlights key issues of concern.
- 1.2 The main emphasis in the Mayor's budget guidance is on value for money. The question of how value for money is defined and demonstrated will be of central significance during the budget-setting process.
- 1.3 The Mayor's financial planning guidelines will require the GLA group to identify significant reductions or savings against planned budgets for 2009/10 and 2010/11. When existing savings assumptions are taken into account, the pressures are considerable. The Metropolitan Police Authority will have to identify reductions or savings of £13 million in 2009/10, in addition to previously planned but unidentified savings of £40 million (based on the published budget for 2008/09).¹ The London Fire and Emergency Planning Authority will need to identify savings or reductions of £2.2 million in 2009/10, in addition to previously planned but unidentified savings of £4.2 million (based on the published 2008/09 budget).
- 1.4 The required savings will be all the more difficult to achieve in the context of inflation and the economic climate. It remains to be seen whether the required reductions can be achieved through efficiencies or whether there will need to be reductions in activity. We are seeking clear information as to the proposed operational resources within the Metropolitan Police Service and the London Fire Brigade over the three years from 2009/10 to 2011/12, and full details of proposed savings and reductions.
- 1.5 We also highlight the risk of drift and uncertainty within the Greater London Authority during the period of transition from the current structure and programme of work to the new structure proposed by the Mayor to be introduced in phases and completed by the end of 2009. We recommend that the Mayor should urgently issue business planning guidance setting out the objectives he expects the GLA group to deliver over the planning period.
- 1.6 The economic climate will have implications across the GLA group. Inflation will affect the GLA and functional bodies to varying extents, and there will be implications for major projects, as private debt becomes more difficult to raise and developers become less willing to invest in large-scale infrastructure projects. This will potentially have implications for the costs and funding of major projects such as Crossrail. Inflation will also potentially affect the costs of goods and services, income receipts, the cost of borrowing, and salary costs. We understand that the risk to Transport for London (TfL) of a fall in fares income as a result of the economic situation is small, but this must remain an area to watch.
- 1.7 The anticipated government grant settlements for the GLA group are all below inflation, and in the case of the London Development Agency (LDA) there will be a reduction in grant in 2009/10.
- 1.8 Within the context of tight financial planning guidelines and other significant cost pressures, there will be very limited scope for additional expenditure to fund new initiatives or

¹ The Commissioner's Report to the MPA on 6 October identifies 'a current budget gap of £76m in 2009/10 rising to £177m in 2011/12 against the Mayor's guidelines'.

programmes designed to deliver the new Mayor's priorities; they will have to be accommodated within existing resources either through savings or through reductions in expenditure in other areas. The LDA and GLA are both being restructured with the aim of delivering better value for money and becoming aligned with the new Mayor's priorities. At TfL, the investment programme is being reviewed and a new ten-year business plan developed. We look forward to substantive proposals as to how the expenditure profile within TfL, the LDA and the GLA will change to reflect the Mayor's policy priorities.

2. Introduction

- 2.1 The new Mayor of London presented a range of commitments and aspirations in his manifesto. These were then refined into a set of priorities published on the Greater London Authority (GLA) website shortly after the election. Four months into the new administration, this report assesses how far these commitments and priorities have been translated into fully costed and funded plans. The report considers the financial impact of the announcements made and actions taken so far on the budget of the GLA group and sets the scene for our examination later this year of the Mayor's budget proposals for 2009/10 to 2011/12.
- 2.2 The draft budget documents due to be published in December 2008 will provide the first detailed account of how the Mayor proposes to put his manifesto commitments into practice beyond the introduction of relatively small-scale initiatives such as those which have been announced so far. The Mayor's budget proposals should also illustrate how he plans to achieve greater value for money within the GLA group. As such, the Mayor's consultation draft budget should mark the transition from general statements of priorities and principles to the production of practical, costed and funded plans.
- 2.3 The key priority to have emerged so far is to achieve greater value for money across the GLA group. The Mayor plans to achieve a zero per cent increase on the council tax precept, which will require significant savings to be made by the Metropolitan Police Authority (MPA), London Fire and Emergency Planning Authority (LFEPA) and the GLA. Any new initiatives or policies that emerge during the budget-setting process will have to be contained within the financial limits set out in the budget guidance. This is not an unworkable process, but it is clearly not the same as one in which the priorities and objectives are set out clearly and comprehensively at the start and then the resources are planned and allocated accordingly. However, it does mean that there will be pressures on existing budget lines, which may result in organisations having to make budget reductions as well as efficiency savings.
- 2.4 The budget-setting process will take place in a context of below-inflation increases in government grant, increased inflation, and a range of other cost pressures. Of particular significance are: the savings which are planned but not yet identified within the MPA budget; the pressures on the LFEPA budget; the costs of the Underground PPP and Crossrail; the future of other major projects not yet included in Transport for London's (TfL) business plans; rising costs of borrowing and increasingly limited potential to attract private sector investment to support major projects; and the rising cost of energy. There are also uncertainties facing the GLA group about government grant funding beyond 2010/11. The MPA and especially LFEPA expect grant increases that are well below inflation over the next two years and there is no expectation of this changing in the medium term. To these must be added the uncertainties that inevitably flow from a change in administration, namely the introduction of new priorities and organisational change.
- 2.5 These various factors will result in significant pressure on the GLA group's budget for 2009/10 to 2011/12. During the budget-setting process we will be closely examining any proposals to reduce expenditure in order to assess their potential impact on the ability of the GLA group to deliver key services. We have been assured that there will be no reductions in the levels of service provided by the Metropolitan Police Service and the London Fire Brigade. However, these assurances did not extend to a commitment to maintain current numbers of police officers, nor did we receive any guarantee that the number of firefighters and appliances would be maintained. There is clearly a risk that the pressure on the budgets of the MPA and LFEPA over the next three years will result in reductions in capacity within

those organisations. This will be a key issue for us as we consider the Mayor's budget proposals later this year.

3. The Mayor's policy and spending priorities

- 3.1 The process of articulating policy priorities and developing plans to deliver them inevitably takes time, particularly given the strategic nature of the GLA and the scale and complexity of the services delivered by the functional bodies. The new administration has been hampered in its efforts towards this end by the delays in putting in place a coherent and steady team of advisers to the Mayor, and in particular the departure of the Deputy Mayor for Young People, Ray Lewis, and the 'First Deputy Mayor and Chief Executive of the GLA Group', Tim Parker. We anticipate that the appointment of Sir Simon Milton as a full-time Deputy Mayor, and his assumption of additional responsibilities following the departure of Tim Parker, will steady the ship and enable the administration to make speedier and more substantial progress in defining its priorities and working out how to deliver them, and we welcome this development.
- 3.2 The Mayor's Forensic Audit Panel, led by Patience Wheatcroft, was intended to fulfil a manifesto commitment to 'launch a comprehensive review of city hall finances within 100 days' of the election. In the event, the Panel's report put forward findings and recommendations which were not comprehensive and which are now being presented as a 'navigating tool' rather than a definitive, comprehensive or prescriptive set of priorities or actions. **Given the high profile of the Forensic Audit Panel, and the fact that the GLA spent public money (£50,000) on it, we recommend that the Mayor's consultation draft budget should highlight which of the Mayor's proposals are intended to implement the Panel's recommendations. It should also identify which of the recommendations are not to be implemented and provide an explanation as to why not.**
- 3.3 Following the publication of the Forensic Audit Panel report we were advised that a further 'direction of travel' document would be produced by Tim Parker during the summer and that this would provide a clear statement of the priorities and consequential changes of the new administration, in advance of a more comprehensive document in the autumn. This intention was announced before the summer recess with the direction of travel document due to be published in mid-August. However, Mr Parker's departure was announced before the report appeared and it was not subsequently released. A statement of organisational changes at City Hall has since been released but it is not yet at the stage of firm, detailed proposals.
- 3.4 One of the consequences of the changes in the team of advisers and the decision not to adopt wholesale the recommendations of the Forensic Audit Panel is that the Mayor has only recently begun to articulate clearly his priorities for the GLA group, beyond the commitments to achieve greater value for money, increase youth opportunities and tackle youth crime. There have been some announcements of relatively small-scale initiatives, but at a strategic level there has been more discussion and information about the general principle of achieving value for money than what changes should be made to existing plans and programmes in order to deliver the Mayor's policy priorities.
- 3.5 We do appreciate that a transition is a complex matter but we are nevertheless concerned that to enter the autumn, and crucially the budget preparation period, without a clearer sense of the priorities and direction of the new administration creates uncertainty. The absence of corporate planning objectives means, among other things, that the GLA could have to 'retro-fit' business plans to budgets, causing financial uncertainty and potential drift as the organisations await clear direction. It is difficult to produce robust and workable budget proposals without having a set of clear objectives and a business plan upon which to base them.

3.6 **The consultation draft budget must be accompanied by a draft corporate plan showing how the Mayor's priorities will be translated into programmes and projects within the GLA to deliver specific objectives. We recommend that the Mayor urgently issue guidance setting out his proposed business planning objectives for the GLA in order to enable them to develop budget proposals that will deliver those objectives.**

3.7 In this section of this report, we set out what is known so far about the Mayor's overall policy priorities. We then look at the financial planning guidance the Mayor has issued to the GLA group. There follow sections looking in further detail at the issues facing the GLA and each functional body.

The Mayor's policy priorities

3.8 The Mayor's budget guidance sets out priorities that are applicable to the entire GLA group. These are as follows.

- a. Contributing towards the Mayor's priority of tackling youth violence through preventative measures and increasing youth opportunities.
- b. Deliver[ing] value for money and better quality of life for all Londoners.
- c. Prioritising measures consistent with the commitment to carbon reduction targets of 60 per cent by 2025 and promoting open spaces.
- d. Supporting the delivery of the London 2012 Olympic Games and Paralympic Games and its legacy.
- e. Deliver[ing] the Mayor's revised Housing Strategy to be published in the autumn.
- f. Implementing the Living Wage for London and promoting equality in the workforce.

3.9 The Mayor also set out three principles to underpin the development of business plans. These are:

- a. How is value for national and council taxpayers being delivered?
- b. How are resources being prioritised to key objectives?
- c. How are resources being used more effectively through joint working across the GLA group?

3.10 On 10 September 2008, the Mayor announced a restructure of the Greater London Authority designed to make the Authority more efficient and able to deliver the Mayor's priorities. The Mayor outlined his key priorities for the GLA, based on 'thinking about how we want London to look and feel in 2012, when we welcome the world to our city'. The Mayor outlined the following priorities:

- a. **Young people:** 'I want a London where we have helped hugely to expand the educational and sporting opportunities available to a generation of London children who are being failed by our schools, and I believe that drive can play a vital part in making this city safer.'
- b. **Transport:** 'I want a London where we mobilise new technology to make transport cleaner, greener, more efficient and more pleasant, with buses that no longer run on diesel, with Tube trains that are increasingly air-conditioned, with the beginnings of a revolution – driven by us in this building – in favour of vehicles powered by

sustainably generated electricity, and with a thoroughgoing bike hire scheme not just in central London but in the suburbs as well.'

- c. **Housing:** 'I want a London where we respond to population growth with housing which is not only affordable but distinguished, and which will be admired by future generations, where we continuously improve the look and feel of our parks and open spaces, where we have a rolling programme of planting trees and encouraging roof gardens and allotments across the city.'
 - d. **Carbon emissions:** 'Of course we want a city that not only looks and feels greener, but which also leads the world in low carbon technologies to supply our buildings with heating and cooling and power.'
 - e. **Economy and the Olympic Games legacy:** 'We will only achieve these improvements if we remember the central importance of the business community, and economic growth, and our role in making London an attractive place to invest. That means dealing with exclusion, and deprivation, and building on the powerful legacy of the Olympics in the east end'.
- 3.11 The new administration has also announced a number of other proposals with resource implications, such as discontinuing *The Londoner* newspaper and planting street trees, expanding transport policing, and extending travel concessions for injured war veterans.
- 3.12 **We note that there is now an emerging framework for the priorities of the new administration. However, it lacks detail of objectives, new initiatives and programmes aimed at delivering those priorities. The Mayor's draft consultation budget should provide full details of objectives and the related new initiatives and programmes. It should show the total cost of those initiatives in each of the three years covered by the budgets and provide information as to how they will be funded. It should also say what the intended outcomes are of any shifts in policy and how the Mayor proposes that those outcomes should be measured.**
- 3.13 **The consultation draft budget should make clear what specific measures are to be introduced within the GLA and each functional body in order to deliver the priority relating to climate change, including information as to the cost, objectives and intended outcomes. It should also set out how value for money will be assessed in relation to this work, and provide details of any existing or planned work relating to climate change that will not be taken forward.**

Value for money

- 3.14 The main budget-related priority of the new administration is to achieve better value for money within the GLA group. This is encapsulated in the proposed overall freeze on the GLA's call on the council tax precept, which we discuss below. Value for money is the main guiding principle of the Mayor's budget guidance, and it has been the recurring theme in our discussions so far with the Mayor and his senior advisers.
- 3.15 A key overarching question over the coming months will be how value for money is defined and demonstrably achieved by the GLA group. There are few who would argue against an ambition of achieving greater value for money, and none who would argue for poor value for money. However, there are differences of opinion and interpretation when it comes to defining and measuring value for money.
- 3.16 Value for money does not happen automatically as a result of spending less. In principle it is possible to achieve better value for money by delivering more with the same or even

increased resources. The Audit Commission defines value for money on the basis of three factors: economy, efficiency and effectiveness. These are measured taking into account costs, inputs, outputs and outcomes. This clearly takes into account a range of factors other than simply how much money is spent, and we would expect the Mayor's budget proposals to address these factors clearly and effectively.

- 3.17 In assessing the Mayor's budget proposals, it will be important to see how his priorities have been reflected and accommodated. This will be essential to any assessment of value for money. This includes relatively small-scale initiatives such as those that have been announced so far, but more importantly we shall be examining the impact of any more significant policy shifts and changes in direction on the spending plans of the GLA group. In order to demonstrate value for money, the new administration will have to plan and achieve tangible outputs and outcomes, particularly in the areas that the Mayor has highlighted as his key priorities. It will also need to demonstrate maximum efficiency and minimal waste, whilst delivering the commitments that have been made to protect key services and ensure that the GLA group is adequately and appropriately resourced in order to fulfil its statutory functions.
- 3.18 **We recommend that the draft GLA budget and the draft consultation budget for the GLA group should include a clear definition of value for money and, in relation to each area of expenditure, it should set out how value for money will be achieved and demonstrated. We would expect the definition and measurement of value for money to draw on appropriate benchmarks and good practice, and recommend that the draft budget refer to these as appropriate.**

The Mayor's financial planning guidelines

- 3.19 The Mayor can only formally and directly control the overall amount of income available to the GLA group to a limited extent. The Mayor makes decisions about Transport for London fares (separately from the budget-setting process) and has the power through his budget to set the GLA group's council tax precept. This means that although in theory he sets the overall budget requirement for the GLA and each functional body, his ability to control the amount of expenditure is limited. The following table shows the sources of income to the GLA group as a whole in 2008/09.²

Sources of income to the GLA group, 2008/09	£m	Per cent of budget
Government Grants (including specific government grants, government grants, and redistributed business rates)	5,896	52
Fares, charges and other income	3,901	34
Council tax precept	908	8
Reserves	635	6

- 3.20 The largest source of income to the GLA group is government grants, which account for 52 per cent of the GLA group's income in 2008/09. Fares, fees and charges amount to 34 per cent of the group's income and six per cent of expenditure is funded by the use of reserves. The council tax precept accounts for only eight per cent of the group's total income in 2008/09.

² The Greater London Authority's Consolidated Budget and Component Budgets for 2008-09 p3

- 3.21 The budget guidance includes financial planning guidelines for the GLA and each functional body for 2009/10 to 2011/12. The guidelines are intended to result in a zero percent increase in the GLA group's council tax precept charge (although the overall level of council tax income may increase as a result of annual growth in the tax base and changes in collection rates). The use of the council tax precept to raise income to the GLA group is confined in practice to the Metropolitan Police Authority (MPA), the London Fire and Emergency Planning Authority (LFEPA), and the Greater London Authority. The London Development Agency (LDA) receives no funding from the council tax precept, and Transport for London (TfL) receives a minimal amount of £12 million for technical reasons relating to its tax status. This is not material to TfL's overall budget. The Mayor could in theory propose to raise funds for the LDA and TfL (beyond the £12 million), but has not done so in this year's budget guidance.
- 3.22 The result of these limitations on the Mayor's ability to influence the overall income to the GLA group is that the budget-setting process can be skewed towards discussion of the budgets of the MPA, LFEPA and the GLA because they offer opportunities to change the overall amount of expenditure, whereas the budgets of TfL and the LDA do not offer such opportunities. However, the Mayor is the Chair of TfL as well as the MPA, and has power of direction over both TfL and the LDA as well as LFEPA. TfL and the LDA spend significant amounts of public money and have a crucial role to play in delivering the Mayor's manifesto commitments. We therefore plan to examine the Mayor's spending proposals for all of the GLA organisations.

The Mayor's financial planning guidelines to TfL and the LDA

- 3.23 The treatment of the budgets of TfL and the LDA is fundamentally different to that of the MPA, LFEPA and GLA because they do not rely upon income from the council tax precept. Instead they are funded by grants and borrowing (and, in the case of TfL, fares income). The Mayor's financial planning guidelines therefore do not set out the overall proposed net revenue expenditure for TfL or the LDA.
- 3.24 For TfL, budget projections are available for 2009/10 but not for the following years, because 2009/10 will be the last year of the organisation's current business plan. The business plan shows a planned decrease in net services expenditure from £4,151 million in 2008/09 to £3,496 million in 2009/10. The reduction is largely attributable to fluctuations in capital expenditure, which peaked in 2008/09 and will reduce in 2009/10. We discuss TfL's income in further detail in the relevant section of this report.
- 3.25 For the LDA, there is also a planned reduction in expenditure, from £516.7 million in 2008/09 to £445.6 million in 2009/10. Again, this is largely the result of a reduction in planned capital expenditure relating to the Olympic Games, which will decrease from £195.3 million in 2008/09 to £118.1 million in 2009/10.³ This reduction does not affect the council tax precept, since the LDA does not receive income from that source. Recent government announcements suggest that the LDA's grant will be further reduced in order to fund the Government's housing initiatives.
- 3.26 The Mayor has already announced Transport for London's fares package for 2009. Fares represent a significant source of TfL's income and decisions about them are a key financial lever directly exercised by the Mayor. **We repeat the recommendation of our predecessor committee that the Mayor should consult the Assembly and the public before making any further decisions about fares. This consultation should be**

³ *The Greater London Authority's Consolidated Budget and Component Budgets for 2008/09*, page 36

integrated so far as possible into the rest of the budget-setting process in order that the Mayor's proposals may be considered in the round.

The Mayor's financial planning guidelines to the MPA, LFEPA and the GLA – year-on-year changes in expenditure

- 3.27 For the MPA, LFEPA and GLA, the Mayor's guidance relates to net revenue expenditure, which is their expenditure before the use of reserves are taken into account and before general grants and income from the council tax precept are applied.

The Mayor's Budget Guidance July 2008: year-on-year changes in net revenue expenditure							
<i>£m</i>	2008/09	% change	2009/10	% change	2010/11	% change	2011/12
MPA	2,595.0	1.75	2,640.4	1.25	2,673.4	1.25	2,706.8
LFEPA	425.3	1.75	432.7	1.25	438.2	1.25	443.6
GLA	137.8	-8.4	126.2	1.0	127.5	0.9	128.7
Total	3,158.1	1.3	3,199.3	1.2	3,239.1	1.2	3,279.1

The Mayor's financial planning guidelines to the MPA, LFEPA and the GLA – reductions compared to previous plans

- 3.28 For 2009/10 and 2010/11, the Mayor's financial planning guidance will represent a reduction in planned expenditure for all three of these organisations, as shown in the following table. The figures for previously planned expenditure are based on the projections contained in the previous Mayor's budget for 2008/09.

Reductions in net revenue expenditure compared to previous plans						
	2009/10			2010/11		
<i>£m</i>	Previous plans	Mayor's guidance	Difference (£m)	Previous plans	Mayor's guidance	Difference (£m)
MPA	2,653.4	2,640.4	-13.0	2,713.1	2,673.4	-39.7
LFEPA	434.9	432.7	-2.2	444.7	438.2	-6.5
GLA	133.2	126.2	-7.0	135.7	127.5	-8.2
Total	3,221.5	3,199.3	-22.2	3,293.5	3,239.1	-54.4

- 3.29 The GLA, LFEPA and MPA will all be under pressure to identify reductions in planned expenditure in order to meet the Mayor's financial planning guidelines. This will be particularly challenging in 2010/11, when the Mayor's guidance requires a reduction of £54.4 in planned expenditure for these three bodies compared with previous plans.

Total reductions in planned expenditure of the MPA, LFEPA and GLA, including planned savings

- 3.30 The MPA, LFEPA and GLA have savings assumptions built in to their existing plans, where some but not all of the required savings have been identified. The following table shows the

savings or budget reductions that will be required for the MPA, LFEPA and the GLA in 2009/10 and 2010/11 taking into account planned but unidentified savings.

	2009/10			2010/11		
<i>£m</i>	Reduction compared to previous plans	Planned but unidentified savings	Total required savings or reductions	Reduction compared to previous plans	Planned but unidentified savings	Total required savings or reductions
MPA	13	40	53.0⁴	39.7	64.1	103.8³
LFEPA	2.2	4.2	6.4	6.5	6.5	13.0
GLA	7.0	0.5	6.0	8.2	0.5	8.7
TOTAL	15.2	49.2	64.4	54.4	71.1	125.5

These figures are cumulative, so if recurring savings are identified in 2009/10 these will also contribute to the targets for 2010/11.

- 3.31 The above table shows that once assumed but unidentified savings are taken into account, the MPA, LFEPA and GLA will need to identify total savings or reductions of £64.4 million in 2009/10, rising to £125.5 million in 2010/11, in order to meet the Mayor's budget guidance. These figures are cumulative, so if recurring savings are identified in 2009/10 this will contribute to the target for 2010/11 as well.

Cost pressures facing the GLA group

- 3.32 The pressures arising from the Mayor's budget guidance will be exacerbated by cost pressures resulting from the economic situation, increasing construction costs, changes in the availability and cost of debt, and increased inflation.

The impact of inflation on the GLA group

- 3.33 Increased inflation will mean that the planned net growth of 1.75 per cent in 2009/10 in the LFEPA and MPA net revenue expenditure in 2009/10 will represent real-terms cuts in the money available for them to spend. Total net revenue expenditure for the GLA, MPA and LFEPA in 2008/09 is £3,158.1 million.⁵ If this were increased for 2009/10 in line with inflation as measured by the Retail Prices Index (five per cent in July 2008), the increase would be £157.9 million. The alternative measure of inflation, the Consumer Prices Index at 4.4 per cent, would result in growth of £139 million. The growth in net revenue expenditure provided for these three organisations in the Mayor's financial planning guidance is £41.2 million. This comprises £7.4 million for LFEPA, £45.4 million for the MPA, and a reduction of £11.6 million for the GLA (including the previously planned reduction of £6.2 million in expenditure on the elections)⁶.

⁴ The Commissioner's Report to the MPA on 6 October identifies 'a current budget gap of £76m in 2009/10 rising to £177m in 2011/12 against the Mayor's guidelines'.

⁵ The Greater London Authority's Consolidated Budget and Component Budgets for 2008-09 p40

⁶ Greater London Authority Group Budget Guidance for 2009-10, p5

- 3.34 The precise size of the real terms cut is difficult to quantify since it depends on the rate of inflation in a year's time (these calculations are based on July 2008 inflation rates, which may of course go up or down). The impact will be different for each organisation, depending on factors including: the level of inflation that applies to the goods and services they each procure; inflation in salaries within each organisation; the proportion of their budget that is taken up by salaries; and the extent to which their budgets comprise core costs which are difficult to contain in the face of increased inflation. The total change in available funds also depends on the savings targets placed upon the organisations by the Government and the Mayor. Changes in interest rates may have an impact on the income the GLA and functional bodies can expect to earn on cash reserves and receipts and on the cost implications of prudential borrowing, as well as the impact on the costs of salaries, goods and services.
- 3.35 Inflation is likely to result in pressure on salaries budgets. In organisations such as the Metropolitan Police Service (MPS) where the main expenditure is on salaries⁷, wage inflation higher than previously assumed levels (2.5 per cent in the case of the MPS)⁸ would result in potentially significant pressure in a context of real-terms cuts in the overall budget. Staff costs represent about 80 per cent of the MPS net revenue expenditure, so wage inflation represents a significant proportion of planned growth in the overall budget. The MPS will therefore have to identify savings in order to accommodate wage inflation whilst meeting the Mayor's financial planning guidelines of an overall increase of 1.75 per cent.
- 3.36 Wage inflation may result in pressures on TfL's budget when the new pay negotiations take place in 2009 at the end of the three-year pay deals in TfL and London Underground. Increased inflation will affect the revenue impact of TfL's prudential borrowing. The assumption in the government grant is inflation of 2.7 per cent, but the total increase in grant from 2008/09 to 2009/10 is 4.6 per cent. Transport for London is therefore under less immediate pressure than the Metropolitan Police Authority or the London Fire and Emergency Planning Authority in terms of the impact of inflation in relation to its grant funding.
- 3.37 However, Transport for London's income may be affected by inflation. Income from fares, particularly on the Underground, is driven by employment. If unemployment were to increase, Tube ridership would be expected to decrease. The previous economic downturn in 1993-94, TfL told us, resulted in a 'very big gap' in London Underground's income during that period.⁹ We understand that this risk is currently not considered to be significant, but this issue will have to be kept under review.
- 3.38 Increasing energy and utility costs will have an impact, particularly for the Metropolitan Police Service¹⁰ but also for Transport for London (although the structure of bus contracts and the way in which power is purchased for the Underground will mitigate the impact to some extent)¹¹ and the London Fire and Emergency Planning Authority. The price of petrol and diesel increased by more than seven per cent in the year to July 2008, whereas in the previous year the price of petrol and diesel fell slightly.¹² For the MPS this has resulted in

⁷ GLA Group Monitoring Report Quarter 4 2007/08 (Budget & Performance Committee meeting 22 July 2008 item 6 appendix C) pp 44, 48, 50

⁸ Budget & Performance Committee meeting 22 July 2008 – minutes appendix 2 p4

⁹ Budget and Performance Committee meeting, 4 September 2008

¹⁰ Budget & Performance Committee meeting 22 July 2008 – minutes appendix 2 p4

¹¹ Budget & Performance Committee meeting 22 July 2008 – minutes appendix 4 pp7-8

¹² Office for National Statistics, *First Release – consumer price indices July 2008*, available at www.statistics.gov.uk

additional costs of £9 million beyond the inflation that had already been allowed for in the budget.¹³

- 3.39 LFEPA has benefited from energy costs 30 per cent below the national average for the last three years through contractual arrangements that come to an end in September 2009. The new contracts have yet to be negotiated, but given the steep rise in energy costs over the past three years, it is anticipated that the new contracts will increase LFEPA's expenditure on fuel. A recent report to LFEPA's Finance Procurement and Property Committee projected that electricity costs would increase by £2.1 million in 2009/10 (an increase of 44 per cent), £1.1 million in 2010/11 and £1.7 million in 2011/12. This is based on a projection at the mid-point between the best- and worst- case scenario.¹⁴
- 3.40 **If inflation continues at July 2008 rates, it will result in significant pressure on the budgets of the GLA group. We recommend that the Mayor's consultation draft budget should set out clearly what inflation rates and other cost pressures are assumed within budget projections for the GLA and each functional body.**
- 3.41 **We recommend that the Mayor's consultation draft budget should include information showing the assumptions underlying projections of income for the GLA and functional bodies.**

Increased cost of borrowing and potential difficulties in raising debt

- 3.42 The economic situation will also have an impact on the cost of borrowing, the ability of the GLA group to raise debt, and the potential to draw in private sector investment to support major infrastructure projects. This will be particularly relevant to the LDA and TfL, and we discuss this later in this report. The GLA group's ability to raise capital receipts may also be affected. The functional bodies have the ability to amend their capital programme, and this could be a significant feature of their budget plans given that capital projects form a key element of expenditure, for TfL and the LDA in particular.

Major projects – Crossrail, the Underground, and the 2012 Olympic and Paralympic Games

- 3.43 The Mayor will also have to accommodate in his budget the costs of the Underground Public/ Private Partnership and Crossrail, neither of which is fully reflected the existing business plans of Transport for London. The costs associated with the PPP are not yet clear. The Metronet administration is the subject of an agreement between TfL and the Government, but TfL has not yet published figures as to the total cost and the extent to which this will be covered by the agreed grant settlement. There is also an ongoing negotiation about the costs and funding of the PPP during its second 7.5-year period. We discuss this further in the later section of the report that covers the TfL budget.
- 3.44 The costs of the Olympic Games present further pressures and uncertainties across the GLA group. The Olympic Games remain a massive undertaking for London, and the budget contains inherent risks and uncertainties, which are exacerbated by the current economic conditions. The high-level picture is that the memorandum agreed between Government and the GLA for funding the Games remains and that GLA group budgets should be largely unaffected by the Games. However, there will inevitably be risk of some 'leakage' between the different parts of the GLA's activities, for example in preparatory costs by the Police and Fire Authorities, in legacy planning work, and in transport investment. This Committee will look further into this matter during the year, but for budget making purposes no significant

¹³ Budget & Performance Committee meeting 22 July 2008 – minutes appendix 2 p7

¹⁴ LFEPA Finance Procurement and Property Committee, 8 September 2008, Agenda item 5, pages 9-10

costs outside of the Olympic precept and the LDA's agreed investment programme are anticipated.

- 3.45 **We recommend that the Mayor's consultation draft budget should include a separate statement of the costs and funding of Olympic Games-related activities.**
- 3.46 **We recommend that the Mayor's consultation draft budget should include revised projections of the amount and revenue cost of planned prudential borrowing by each functional body. The draft budget should also include, within each component budget, information showing what assumptions have been made in relation to: the costs of prudential borrowing; the contribution of the private sector to major projects; and projected interest and capital receipts.**

The Mayor's budget and spending priorities - conclusion

- 3.47 There will be significant pressure on the GLA group's budgets from 2009/10 to 2011/12. As a result, there is very limited scope for increases in expenditure to reflect the Mayor's priorities. Any new initiatives or changes in emphasis will have to be funded from existing resources. The budget debate is likely to be dominated much more by questions about how the GLA group will contain cost pressures arising from inflation and the economic situation and how the necessary savings will be achieved. Within this context, the question of how value for money will be defined and measured will be central: the pressures on the GLA group budget are such that the Mayor's budget guidance will be very difficult to deliver without reductions in some existing or previously planned areas of activity. We discuss this in relation to each functional body in the relevant sections that follow.
- 3.48 **The Mayor has asked for budget submissions covering the period at least to 2011/12. We request that the consultation draft budget should identify clearly the amounts of efficiencies and budget reductions that will be required for each component budget, as well as setting out the costs of new initiatives and proposed areas of growth. It should itemise any savings or reductions that have already been identified and describe what the process and timescales will be for identifying further savings. This will enable us to assess the extent to which the required savings will be made by efficiencies and the extent to which reductions will be required beyond those efficiencies. It will also enable us to judge the extent to which the planned levels of savings are achievable, as opposed to unidentified savings being included in the budget as a balancing figure.**

ANALYSIS OF BUDGET PROPOSALS BY FUNCTIONAL BODY AND THE 'CORE GLA'

4. The Mayor's spending proposals and priorities for the MPA

- 4.1 The Metropolitan Police Authority (MPA) is in budgetary terms the second largest of the functional bodies, with an annual budget approaching £3 billion. It is also the greatest recipient of council taxpayers' funds, at just over £650 million per annum. It is also, probably, the highest profile of the GLA's functional bodies for a range of topical and political reasons that played a core role in the recent election campaign. The priorities of a new Mayor are therefore of great public interest and warrant thorough scrutiny.
- 4.2 Our key findings are that after years of growth in its budget the MPA budget will this year face a real-terms cut; that the impact of this in the coming year will be limited but that the projected budget targets for future years will force savings that will require organisational changes and may have an impact on police numbers. We report the comments of both the Mayor and the Deputy Mayor for Policing on this matter and await developments. We note also that, as in previous years, the police budget is based at this stage on significant but as yet unidentified savings and that this remains, from a planning point of view, challenging.

The Mayor's policy priorities for the Metropolitan Police Authority

- 4.3 For 2009/10, the Mayor has set seven priorities for the Metropolitan Police Authority Budget. Four of these are new additions (listed below) compared to the guidance issued by the previous Mayor, although the Metropolitan Police Service has told us that this represents a shift in emphasis rather than an introduction of completely new activities.
- a. Immediate priority to be given to tackling knife and gun crime, including provision for additional handheld scanners and knife arches.
 - b. A more visible police presence on buses, trains and at transport hubs.
 - c. Increase police accountability through crime mapping and regular public meetings with borough commanders.
 - d. Greater emphasis on internal HR issues including staff welfare, morale, diversity and equality.
- 4.4 The Mayor has not issued any guidance as to the total workforce to be provided for in the budget, nor for the numbers of police officers or Police Community Support Officers (PCSOs). Kit Malthouse AM (First Deputy Chairman of the MPA and Deputy Mayor for Policing) told us that he was interested in increasing the capacity and productivity of the existing workforce in order to do more for the same. The plan is that this will be achieved by targeting resources more effectively; continuing the civilianisation programme in order to maximise the amount of officer time spent 'face to face' with the public as opposed to desk-based work; and reducing sickness and other absence. He argued that the debate about officer numbers was 'tired' and, whilst he would not necessarily advocate a reduction in numbers, he was more interested in productivity. The Mayor reiterated this point at our meeting in September 2008 when he refused to be drawn into making any commitment to maintain current officer numbers over the next four years.
- 4.5 The Metropolitan Police Service is working on developing a definitive measure of productivity. Kit Malthouse AM led us to expect that the four-year plan to be published this Autumn will set out how the Metropolitan Police Authority wishes productivity and effectiveness to be measured.

- 4.6 The number of officers is of course not the only factor in the ability of the Metropolitan Police Service to maintain or improve the level and impact of its service. We welcome the suggestion of an emphasis on police capacity as well as resources as a further step towards improving the accountability of the MPS to Londoners and continuing to increase its ability to deliver front-line services as efficiently as possible. This is an important debate, but in order for it to be valuable and credible it must be informed by reliable facts and figures.
- 4.7 **We recommend that the Mayor's consultation draft budget should identify projected numbers of police officer numbers, as well as the amount of time expected to be spent by police officers on front line service delivery. If there is to be a halt in the growth in police officer numbers in London, this must be fully debated and discussed, and convincing and effective measures must be put in place to ensure that the capacity of the Metropolitan Police Service continues to increase even if their total numbers do not.**
- 4.8 The Mayor has made four announcements with financial implications for the MPA budget within 2008/09 and with potential financial implications for 2009/10 and beyond.
- a. Operation Blunt II, an initiative aimed at tackling knife crime, has been funded from an existing allocation in 2008/09. The cost this year is £1m. We understand that the Mayor intends this initiative to continue into 2009/10, and that funding will be identified as part of the budget process.
 - b. Sixty-five knife arches and 350 metal detector wands have been purchased using underspends from 2007/08.
 - c. The Mayor has announced Metropolitan Police Service funding of £700k for community projects aimed at tackling youth violence.
 - d. The launch of crime maps on 3 September 2008, which provide local information about crime rates within London. The Government has indicated that crime maps will be available across the country later this year. Commander Rod Jarman reported to a Mayor's news conference on 3 September 2008 that the development costs had been £210k, and that there would be small ongoing costs.
- 4.9 We note that funding for new initiatives has been identified in the current financial year from previous underspends and existing allocations. However, it is not yet clear how these initiatives will be funded in future years. The pressures on the MPA budget are likely to intensify over the next four years, and Londoners will therefore want to be assured that new long-term initiatives announced this year are capable of being funded in future years. A hand-to-mouth approach to new initiatives would not be sustainable in the medium to long term.

The Mayor's financial planning guidance to the MPA

- 4.10 The Mayor's guidance to the MPA is to produce budget proposals including growth of 1.75 per cent over net revenue expenditure for 2008/09 in 2009/10, and growth of 1.25 per cent for 2010/11 and 2011/12. The following table shows what this will mean in financial terms over the next two years, compared to the previously published plans.

<i>£m</i>	2009/10	2010/11	2011/12
Mayor's published budget 2008/09			
Net Revenue Expenditure	2,653.4	2,713.1	
Use of reserves	0	0	
Budget requirement	2,653.4	2,713.1	
Mayor's budget guidance July 2008			
Budget requirement (assuming no use of reserves)	2,640.4	2,673.4	2,706.8
Change from 2008/09 plans	-13.0	-39.7	
Year-on year change in budget requirement	45.4	33.0	33.4

- 4.11 The Mayor's budget guidance to the MPA provides for a lower rate of growth in expenditure than the percentage increase in the MPA's income from government grants. The impact of this is that the MPA's call on the council tax precept will decrease from 2008/09 to 2010/11, as shown in the following table.

<i>£m</i>	2008/09	2009/10	2010/11	2011/12*
Budget requirement	2,595.0	2,640.4	2,673.4	2,706.8
Grant	1,930.0	1,978.3	2,027.6	2,078.3
Income required from council tax precept	665.0	662.1	645.8	628.5
Year-on-year change in precept income		-2.9	-16.3	-17.3

*Grant figures are not available beyond 2010/11 – this table assumes continued increases of 2.5 per cent from 2010/11 to 2011/12, in line with the increases from 2008/09 to 2009/10.

The MPA's reserves

- 4.12 Kit Malthouse AM told us that he wanted to make the MPS more financially resilient by building up reserves for use in the event of a catastrophic incident pending the payment of additional government grant funding. The Metropolitan Police Authority made a contribution to reserves of £81.2 million against a planned drawdown of £4 million in 2007/08. If building up the MPS's reserves emerges as a priority, this could represent an additional pressure on the revenue budget, depending on the extent to which the Metropolitan Police Service continues to underspend in areas such as pay and exceed its projected income from interest (the MPS generated an additional £5.7 million in 2007/08 above its planned £11.2 million) and the target level of reserves.
- 4.13 **We recommend that the Mayor's consultation draft budget should set out his policy on the reserves of each of the component parts of the GLA group, the**

principles underpinning his policy, and his assessment as to appropriate levels of reserves over the three-year planning period.

Pressures on the MPA's budget

Existing savings assumptions

- 4.14 The Metropolitan Police Authority had already assumed efficiency savings of £142.8 million, of which £40 million were unidentified, in 2009/10, and £180.2 million, of which £64.1 million were unidentified, in 2010/11.¹⁵ These figures are cumulative - the figures for years later in the existing plans are inevitably larger, but it can be expected that these figures will reduce by the time of the Mayor's consultation draft budget, as savings are identified.
- 4.15 The MPA is in the process of identifying net savings and reductions of £76 million over the previous plan to meet the Mayor's financial planning guidelines in 2009/10, increasing to £128 million in 2010/11 and £177 million in 2011/12. Significant savings have already been identified; also, ongoing savings made in one year contribute to the targets for future years. However, the MPA identifies a 'budget gap' (savings required but not yet identified) of £26.3 million for 2009/10, £66.8 million in 2010/11 and £117.9 million in 2011/12.¹⁶
- 4.16 Kit Malthouse AM acknowledged the scale of reductions that will be necessary, telling us that he expected grants to remain 'on the floor' in future years, and confirmed to us that this would mean the Metropolitan Police Authority would be looking for 'big ticket' savings in 2010/11 and 2011/12. There are no detailed efficiency proposals to support the MPA's savings targets, and there is as yet no evidence to demonstrate that the targets are achievable through genuine efficiencies rather than service cuts.

Costs associated with the Olympic and Paralympic Games

- 4.17 The Mayor has stipulated that there will be no addition to the council tax precept for Olympic security costs. However, as yet there is no costed plan for Olympic security and discussions are taking place with the Government as to what resources will be required and how they will be funded, as well as the implications for the MPS's other policing work in the run-up to and during the Games. The current assumption is that Olympic security will be cost neutral in terms of the MPA budget. This will need to be kept under close review over the three-year period as we monitor expenditure on the Games to ensure that Londoners are not disproportionately expected to bear the costs through their council tax bills.
- 4.18 The National Audit Office report of June 2008 on preparations for the Games reported that 'the requirements for policing and wider security need to be identified early enough to be provided cost-effectively. There is still no costed plan for these elements of the programme but one is due by the end of the year'.¹⁷
- 4.19 **A costed plan for the security elements of the Olympic and Paralympic Games is due by the end of 2008. We recommend that the Mayor's consultation draft budget should, so far as possible, include details of the anticipated costs to the MPA and how these will be met in each of the three years from 2009/10 to 2011/12.**

¹⁵Mayor's Background Statement in support of his Final Draft Consolidated Budget for 2008-09, page 106

¹⁶MPA joint Finance and Planning, Performance & Review Committee meeting 18 September 2008, item 6 Appendix 1, MPA/MPA Draft Interim Budget Submission 2009-12

¹⁷National Audit Office, June 2008, *Preparations for the London 2012 Olympic and Paralympic Games: progress report June 2008*, page 7

Historic overspends

- 4.20 The Metropolitan Police Authority and Metropolitan Police Service will need to bear down on historic overspends in areas such as supplies and services (which overspent by £19.5 million against a budget of £438 million in 2007/08 and has been a persistent source of overspends over previous years) and police overtime. At the same time, the Metropolitan Police Authority will want to ensure that resources are targeted towards improvements in performance, particularly in those areas where targets were not met in 2007/08 such as reducing gun and knife-enabled crime, which was reduced by 1.4 per cent in 2007/08 against a target of a five per cent reduction.

Inflation

- 4.21 As noted earlier in this report, the Metropolitan Police Service budget is vulnerable to inflationary pressures, particularly relating to salaries and fuel and energy costs.

The MPA budget - conclusion

- 4.22 It remains to be seen how the Metropolitan Police Service, which has over the last eight years been engaged in a seemingly constant process of searching for efficiencies and savings, will be able to continue to deliver the same level of service as well as accommodating the Mayor's required shifts in emphasis and priority within the proposed overall financial envelope.
- 4.23 Any increases in expenditure to reflect the Mayor's proposed emphasis on tackling knife- and gun-related crime will have to be delivered in a context of a decreasing contribution to the MPA budget from London council taxpayers as well as in an overall context of real terms reductions in the available resources. We have been told that the Mayor has not instructed the MPA to stop any activities or initiatives in order to meet his financial planning guidelines. It is his belief, articulated to us by Kit Malthouse AM, First Deputy Chair of the MPA and Deputy Mayor for Policing, that the Metropolitan Police Service can 'do more for less' by achieving efficiencies and greater productivity. We shall be examining the Mayor's budget proposals for the MPA in detail to assess the extent to which this aspiration is met in practice.
- 4.24 **The MPA will need to identify significant savings in order to comply with the Mayor's financial planning guidelines over the next three years. There is a large provision for unidentified savings, and the MPA will face pressures from inflation and other financial and economic factors. We recommend that the Mayor's consultation draft budget should include details of proposed savings or budget reductions for 2009/10 and, so far as possible for 2010/11. The document should also explain what other potential savings or reductions are under consideration and what their scale and impact would be.**

5. The Mayor's spending proposals and priorities for the 'core' GLA

5.1 The 'core' Greater London Authority (GLA), that is, those functions directly controlled at City Hall rather than provided through functional bodies, accounts for a relatively small part of overall GLA spending. However, it is the corporate core of the organisation. Its priorities and activities are of importance in themselves and also in that they set the direction of the wider GLA group. A high-level announcement was made by the Mayor of 15 per cent savings in this budget, and this was followed by the announcement of new priorities and a new organisational structure. This remains 'work in progress' but in the following section we analyse the potential implications of the proposals. Our key findings are: that the 15 per cent announced was not quite what it seemed, being in fact around 5 per cent once previously planned reductions in expenditure on the elections the removal of planned growth are taken into account; that this nevertheless does require some savings in staffing and other costs; but that the Mayor's proposals for change remain unfinished and that we must return before commenting finally upon them.

The Mayor's priorities for the GLA

- 5.2 As reported above, on 10 September 2008 the Mayor announced a restructure of the Greater London Authority designed to make the Authority more efficient and able to deliver the Mayor's priorities.
- 5.3 The Mayor proposes that the GLA's policy departments should be organised into two areas: 'Communities and Intelligence, with a mission to strengthen communities, tackle deprivation and improve social mobility [and] Development and Environment, with a mission to ensure that London's growth and infrastructure needs are met in a sustainable way'. How the reorganisation will affect the allocation of resources within the GLA remains to be seen, but it has been suggested that we should anticipate a shift in resources from support functions towards 'core' policy functions. We also understand from announcements made so far that the Mayor intends to reduce the size of the office working directly to him in order to reduce duplication and increase efficiency within the organisation.
- 5.4 Restructuring requiring redundancies will require additional one-off resources, with subsequent savings, and the treatment of redundancies by each of the parts of the GLA family needs to be understood. The GLA's Executive Director of Finance and Performance, Martin Clarke, told us that the organisation has a reserve of £4 million for this purpose. We will be requesting full details of the short-term costs and any long-term savings resulting from the restructure when more detailed proposals emerge next year.
- 5.5 In the shorter term, there are two potential areas of growth and new activity for the GLA that have been announced so far: planting 10,000 trees over the four-year mayoral term and implementing a priority parks scheme, and establishing four new rape crisis centres.
- 5.6 The Mayor announced in June 2008 a '£6 million funding package' over four years to plant 10,000 street trees and improve London's green spaces.¹⁸ This is to be accompanied by a £4 million priority parks scheme. At the time of the announcement, it was intended that the package would be funded by discontinuing *The Londoner*. However, as noted above the savings to the Greater London Authority from this measure are £612,000 per year. The savings to Transport for London are to be used for other purposes. Martin Clarke, GLA Executive Director of Finance and Performance, told us in July 2008 that the funding

¹⁸ Mayor's news release 311, 22 June 2008

package for this initiative was under negotiation.¹⁹ Papers for the meeting of the LDA Board on 8 September 2008 suggest that the initiative will be funded jointly by the LDA and TfL, with the LDA providing £2 million and TfL £8 million over four years.

- 5.7 The Mayor has made a commitment to establish four rape crisis centres, at an estimated cost of £744,000. Boris Johnson's Crime manifesto stated that he would fund these four centres by reducing the size of the Mayor's press office by 20 per cent.²⁰ Kit Malthouse AM, Deputy Mayor for Policing, told us in July 2008 that proposals would be coming out soon to fulfil this commitment.²¹
- 5.8 The GLA will presumably need to increase its capacity to address issues relating to young people's opportunities in order to deliver the Mayor's stated priorities. There have not yet been any announcements as to how this will be achieved or what the financial implications will be. This should become clear in the Mayor's draft budget for the GLA.
- 5.9 **We recommend that the draft budget for the GLA, due to be released to us for consultation in November 2008, should illustrate the changes to existing plans in order to deliver the new Mayor's priorities. This should include clear indications as to how new initiatives will be funded, and which areas of work are planned to be reduced or stopped.**
- 5.10 **We recommend that such an explanation should also be provided in relation to each functional body in order to provide clarity as to how the new Mayor's spending plans will differ from previously published plans.**

The Mayor's financial planning guidelines to the GLA

- 5.11 The Mayor's budget guidance proposes 'for 2009/10 a reduction of 15 per cent in net revenue expenditure from the amount of £79.1 million (which excludes the contribution to the Olympic and Paralympic Games) presented in the Mayor's published budget'. For 2010/11 and 2011/12, the guidance proposes annual increases of 1.25 per cent in net revenue expenditure.
- 5.12 At our meeting in July 2008 the then Chief Executive of the GLA, Anthony Mayer, was keen to emphasise to us that the 15 per cent figure was 'guidance' and 'a target'. He told us it was 'an arithmetic consequence of the Mayor's commitment to a zero per cent increase in the precept' and that 'it is a target which, whether achieved or indeed exceeded, will depend on the outcome of the Parker blueprint' (that is, the organisational priorities and structure that were being developed by Tim Parker, then 'First Deputy Mayor and Chief Executive of the GLA Group', before his departure from the organisation in August 2008).²²
- 5.13 By September 2008, the Mayor was able to say that the savings target was likely to be met and savings had already been identified to achieve that objective. Sir Simon Milton has suggested that the restructure will yield greater savings in future years, but the full details of this will only come to light as the restructure is designed in detail and implemented during 2009/10.
- 5.14 Fifteen per cent of £79.1 million equates approximately to a £12 million reduction between 2008/09 and 2009/10. The publicity and discussion around this guidance has caused some confusion. The figure of £79.1 million is the amount of non-Olympic Games related

¹⁹ Budget and Performance Committee minutes, 22 July 2008, Appendix 5 page 12

²⁰ Making London Safer, Boris Johnson, 2008, page 29. Available at http://www.backboris.co.uk/assets/crime_manifesto_complete_final_final.pdf

²¹ Budget and Performance Committee minutes, 22 July 2008, Appendix 2, p. 17

²² Minutes of Budget and Performance Committee, 22 July 2008, appendix 5 p. 2

expenditure for 2008/09, which includes expenditure on the May 2008 GLA elections. Spending on GLA elections peaks in election years and then falls away immediately following elections. The previously planned change in expenditure on elections will result in a reduction of £6.2 million in net revenue expenditure between 2008/09 and 2009/10 (there is £400,000 of planned expenditure on the elections in 2009/10, compared to £6.6 million in 2008/09). This cannot reasonably be described as an efficiency saving or a budget cut – it simply reflects the usual pattern of expenditure on GLA elections.

- 5.15 The Mayor’s proposed reduction in expenditure by the GLA can more clearly be understood if expenditure on elections is excluded from the equation. In that case, the reduction compared to previously planned expenditure required by the Mayor’s guidance in 2009/10 is £7 million, which is 9.5 per cent of the previously planned budget for 2009/10 excluding the Olympic Games and elections.
- 5.16 The GLA’s call on the council tax precept is determined by its budget requirement rather than its net revenue expenditure. The budget requirement takes into account movements in reserves as well as revenue expenditure. In non-election years, the GLA makes annual contributions of £5 million to its reserves, which are then spent as the elections approach. The assumption is that these contributions will continue in the future. Once movements into reserves are taken into account, the reduction in the GLA’s budget requirement from 2008/09 to 2009/10 will be £3.4 million, compared to a previously published increase of £3.7 million. £3.4 million is 2.5 per cent of the GLA’s total budget requirement for 2008/09, or 4.9 per cent of its non-Olympic Games related budget requirement.
- 5.17 The following table shows the impact of the Mayor’s budget guidance on the GLA’s call on the council tax precept from 2009/10 to 2011/12.

<i>£m</i>	2008/09	2009/10	2010/11	2011/12*
Budget requirement	136.5	133.1	134.6	136.6
Grant	48.0	48.1	48.1	48.1
Income required from council tax precept	88.5	85.0	86.5	88.6
Year-on-year change in precept income		-3.5	1.5	2.0

**The budget requirement for 2011/12 assumes continued Olympic Games-related expenditure of £60m, and a continued marginal growth in the GLA grant.*

How will the GLA achieve the required reductions in expenditure?

- 5.18 The GLA’s published business plan included £0.5 million of savings to be identified in 2009/10 and in each of the following two years. This will bring the total amount of savings or reductions to be identified within the GLA budget to £3.9 million in 2009/10 compared to the 2008/09 budget, or £7.5 million compared to previously published plans. Some reductions will result from not implementing previously planned growth, from changes to the establishment that have already been made, and from the decision to discontinue *The Londoner*.
- 5.19 Since the Mayor was elected, a number of posts have been deleted from the organisation. The reduction in staffing costs as a result of these changes is £1 million in a full year.²³ The

²³ Business Management and Administration Committee agenda, 18 June 2008, item 6 page 4, and the Mayor’s statement to the Assembly on 11 September 2008

Mayor has also signalled his intention to propose further reductions in the numbers of staff working at City Hall to fund new initiatives. For example, the Mayor's manifesto *Making London Safer* included a commitment to reduce the Mayor's press team by 20 per cent in order to release funding for four rape crisis centres (see paragraph 5.7 above).

- 5.20 Within the 2008/09 budget, there was £700,000 of planned growth that has not been implemented.²⁴ This will result in savings against this year's budget that can be taken forward into 2009/10. Some of the planned growth in from 2008/09 to 2009/10 will also be easily removed from the budget as the initiatives planned by the previous Mayor are not implemented.
- 5.21 One of the Mayor's earliest announcements following his election in May 2008 was that the GLA would no longer produce *The Londoner*, which will save £612,000 per year from the GLA budget.²⁵ It will also result in savings in the budgets of the LDA (£500,000 per year), the MPA (£250,000 per year) and Transport for London (£1.5 million per year).²⁶
- 5.22 The total reduction in the GLA budget resulting from decisions already taken or announcements already made is £2.3 million. The Executive Director of Finance and Performance told us that there were 104 posts that were not covered by permanent appointments in July 2008. The total provision in the budget for those posts is £4.8 million. However, the GLA has a vacancy factor built into the budget of £2.1 million, assuming that some posts will not be occupied during the year. Taking this into account, the full-year saving against the budget if none of these posts were occupied would be £2.7 million per year. The recruitment freeze announced on 10 September, should it continue into and throughout 2009/10, would potentially save up to £2.7 million, depending on the duration of the recruitment freeze and the extent to which posts are covered by temporary staff.²⁷
- 5.23 A further £2.5 million of savings or reductions would need to be identified in the GLA's planned net revenue expenditure in 2009/10 in order to meet the savings target set out in the Mayor's financial planning guidance.
- 5.24 The announcement of the restructure of the GLA did not identify where any savings or reductions might be made in the existing staffing establishment or the overall budget. The Mayor is expected to include proposals in his draft budget for the GLA in November 2008. However, there were some indications in the Mayor's statement as to what these proposals might include.
- a. **Efficiency savings** The overall emphasis was on achieving efficiencies and better value for money. In his statement announcing the proposed restructure, he said, 'we now want to do new things, and we want to do them better, and it is absolutely vital that we do them more efficiently. To take a metaphor from the environment, I want our work to shine as brightly as ever – to achieve the same or greater incandescence – but with an energy-efficient bulb'. One measure designed to achieve economies of scale is the proposed merger of two directorates (Finance and Performance and Corporate Services) into one area of Finance and Operations.
- b. **De-layering the organisation:** The Mayor proposes that there are too many reporting layers within the organisation and an unnecessarily hierarchical structure.

²⁴ Minutes of Budget and Performance Committee, 22 July 2008, appendix 5 p. 4

²⁵ Minutes of Budget and Performance Committee, 22 July 2008, appendix 5 p. 11

²⁶ Minutes of Budget and Performance Committee, 22 July 2008, appendix 5 p. 12

²⁷ Minutes of Budget and Performance Committee, 22 July 2008, appendix 5 p. 6

- c. **Potential savings from sharing services with the functional bodies.** The Forensic Audit Panel pointed to potential savings from shared services, and the Mayor supports this view. In some areas there is already fairly advanced work to bring about efficiencies from increased joint working across the GLA group. Some of this work began several years ago and is now coming to fruition, whereas other aspects are relatively new. The potential areas for savings include IT, payroll, procurement, finance, and temporary staff. The precise level of savings and timing of implementation of new joint working arrangements are being developed now. It will be important, in considering the Mayor's budget proposals later this year, to see what new joint working arrangements are proposed and what the anticipated savings are. This will be important not just from a financial point of view, but also so that any constitutional or governance issues arising from the new arrangements can be properly considered and scrutinised. Having said that, we know that discussions about potential savings from shared services have been taking place for some years already without significant progress. The magnitude of the potential savings is not yet clear, but we look forward to examining detailed proposals.
- d. **Reductions in certain areas of activity:** The Mayor's announcement included a freeze on all but essential recruitment. There are 100 vacancies in the GLA, and the Mayor indicated that freezing recruitment would enable the organisation to create redeployment opportunities and minimise the need for redundancies. The Mayor did not identify how many posts he proposed to delete from the establishment, but he did comment that there were twice as many people as in 2001/02, and referred to his intention to minimise the need for 'large-scale redundancies' during the restructure, in that he hoped to be able to redeploy staff within the organisation if their posts were removed. This suggests that the Mayor intends to reduce significantly the number of staff in the Authority. A reduction in the numbers of staff will result in the GLA reducing or stopping work it currently does in some areas²⁸, but it is not yet clear what will be the extent of the reductions as opposed to efficiency savings and where any reductions would be made. The Mayor has indicated that he intends to reduce the size of the office working directly to him. He has also repeated his manifesto commitment to reduce by 20 per cent the GLA's expenditure on press and communications. There have been references to removing duplication and implementing a different balance between 'core' and 'peripheral' activities.

- 5.25 The Mayor criticised his predecessor for the amount of money he spent on foreign travel, and took steps to reduce the cost of the delegation to Beijing this summer. On that basis we might anticipate a reduction in the GLA budget for travel and subsistence, which for 2008/09 is £284,000. The budget for 2007/08 was £289,000 but the outturn was £474,000.²⁹
- 5.26 A possible area of budget reductions (though not reductions in actual expenditure, so therefore with little impact on the work done by the Authority) could be the Authority's supplies and services budget. In 2007/08 there was an underspend of £1.4 million against a budget of £36.5 million, and in 2006/07 there was an underspend of £1.7 million against a budget of £29.3 million.³⁰ Repeated underspends of this magnitude are worthy of

²⁸ Budget and Performance Committee minutes, 22 July 2008, Appendix 5 page 8

²⁹ GLA Corporate Plan 2008-11, April 2008, page 16

³⁰ GLA Corporate Plan 2008-11, April 2008, page 16, and 2006/07 Q4 monitoring report for the GLA group

consideration for potential reductions in the budget to bring the budget closer in line with actual expenditure.

- 5.27 During the 2008/09 budget-setting process, we raised concerns about the extent to which the budget was supported by the use of reserves, freezing programme budgets, assumptions about treasury management income and increasing the vacancy factor in the salaries budget. In the absence of monitoring information for the first quarter of 2008/09 (which is expected to be made available in October), we are not in a position to assess the existing budget to see what other reductions might be possible on the basis of expenditure to date, or what pressures might arise from the existing budget. However, it is reasonable to expect underspends on programme budgets in the first year of a new administration.

Savings proposed by the Forensic Audit Panel

- 5.28 Further proposals for reductions or savings can be found in the report from the Forensic Audit Panel, which was commissioned by the Mayor and published in July 2008. The Panel argued that 'by narrowing the activities it undertakes and operating more efficiently, we believe that a saving of 10% to 15% or a saving of approximately £8 million of GLA "head office" spend might be achieved. By exploiting synergies across the GLA Family, we believe this figure could be increased significantly'.³¹
- 5.29 Before considering the findings of the Panel, we would note our concern about the way in which its work was funded. One of the aspects of the Panel's work that the Committee discussed was the commissioning of PricewaterhouseCoopers to provide it with expert paid support. This commissioning took place by Single Tender Action³², after PwC had started work³³. The Forensic Audit Panel, including Andrew Gordon, Head of Investigations in the Forensic Audit department of PwC, was involved in commissioning PwC to do this work³⁴. The exemption from the normal requirement to put the work out to competitive tender was granted by the Mayor in accordance with the GLA contracts code of practice, on the grounds of urgency (related to the Mayor's deadline for the Panel to report within 60 days).³⁵ Such exemptions ought to be the exception to the rule, and should not be used unless there are genuine grounds for urgency.

³¹ Report from the Forensic Audit Panel, 16 July 2008, page 10

³² MD35, supporting report to the Mayoral decision establishing the Forensic Audit Panel and appointing PricewaterhouseCoopers to support it, 16 June 2008

³³ MD35 and Budget Committee meeting 19 June, minutes Appendix A p8

³⁴ Budget Committee meeting 19 June, minutes Appendix A p8

³⁵ MD35

- 5.30 The Panel identified a total of £7.7 million of potential savings from the GLA budget, set out in the following table extracted from the Panel’s report.

Reductions and savings proposed by the Forensic Audit Panel	£m
Mayor’s Office	2.0
Media and Marketing	0.8
Policy and Partnerships	1.5
Finance and Performance	1.1
Corporate Services	1.1
Elections	1.0
Assembly and Secretariat	0.2
Total	7.7

- 5.31 The report did not provide a breakdown of how the proposed savings should be achieved or what activities should be ceased or reduced, nor did it suggest whether the savings would be made from staffing budgets, programme budgets, or other areas of expenditure. However, there were statements made in the report indicating the Panel’s general concerns and providing some specific suggestions. The Panel was concerned about possible duplication of effort between the GLA and the functional bodies, in particular in relation to economic development, business planning, cultural strategies and events, public affairs and transport, where the Panel considered that there were potential overlaps between the GLA, TfL and the LDA. The Panel questioned the size of the GLA environment team, and questioned the role and value of other teams within the organisation. It suggested that savings could be made through outsourcing and increased sharing of services within the GLA group, and potentially through a review of the GLA’s overseas offices.
- 5.32 The Panel suggested that expenditure on elections could be reduced by £4 million over four years. However, at our meeting in July 2008, the then Chief Executive and Greater London Returning Officer, Anthony Mayer, told us that in his view the impact of this would be that ‘unwise’ steps would have to be taken in order to achieve such a reduction in the cost of running Greater London Authority elections.³⁶ The calculations provided to us by the Executive Director of Finance and Performance assume that contributions to the elections reserve will continue as previously planned, at a rate of £5 million per year.³⁷
- 5.33 The Mayor and his senior advisers have indicated that they will not necessarily implement the recommendations of the Forensic Audit Panel. The Mayor said, ‘I am studying the report closely and will be discussing its recommendations with the First Deputy Mayor, Tim Parker’.³⁸ Tim Parker, then First Deputy Mayor and Chief Executive of the GLA Group, said, ‘In time, we may decide to implement some of these recommendations; others may not be appropriate to act on’. At Mayor’s Question Time in September 2008, the Mayor again made clear that he saw the Panel’s report as a ‘navigating tool’ rather than a prescriptive list

³⁶ Budget & Performance Committee meeting 22 July 2008 – minutes appendix 5 p3

³⁷ Letter from Martin Clarke, Executive Director of Finance and Performance, to the Committee, July 2008

³⁸ ‘Report will lead to real value for money savings’ – Mayor’s press release 15 July 2008

of actions. It seems clear that the Forensic Audit Panel's report is not the significant driver in the new administration's work to identify potential efficiencies or other improvements in the GLA group's expenditure. £50,000 was spent in support of the Panel, and that it was presented at its launch as the fulfilment of the Mayor's manifesto commitment to launch a review of GLA finances within the first 100 days. We look forward to seeing how the recommendations of the Panel are reflected in the Mayor's budget proposals.

- 5.34 The question of value for money in the context of the GLA is a particularly interesting one, given that it does not deliver direct services (other than managing Parliament and Trafalgar squares) - most of its functions are of policy-making or advocacy. Value for money is difficult to demonstrate in relation to these functions. For example, notwithstanding the decision to discontinue *The Londoner*, communications and media liaison remain vital functions for a public body such as the GLA. Judgements about value for money in relation to 'non-core' activities such as these are more political than technical. The recommendation made earlier in this report seeking an explanation of how value for money will be defined and measured is therefore particularly pertinent for the GLA.

6. The Mayor's spending proposals and priorities for LFEPA

- 6.1 The London Fire and Emergency Planning Authority (LFEPA) budget is the least likely to be directly affected by new mayoral policies or initiatives – none has been announced so far. The key issue for LFEPA will be containing cost pressures within the tight financial planning guidelines set by the Mayor and the below-inflation increase in government grant, and making its budget sustainable in the long term. The cost pressures faced by LFEPA are significant – in 2009/10 LFEPA will need to make greater use of its reserves than was previously planned, and additionally it will have to make savings of £2.2 million compared to previously published plans in order to comply with the Mayor's financial planning guidelines. In 2010/11, savings or reductions of £6.5 million will be required in comparison to previously published plans. LFEPA also has savings assumptions built into its budget from previously published plans, which will increase the pressure on its overall resources.
- 6.2 Given these pressures, we are not convinced that savings beyond the Mayor's financial planning guidelines, suggested by the Chairman of LFEPA, would be sustainable or possible without reductions in important operational activities. We are particularly concerned about the risk of reducing the resources available for LFEPA's important fire prevention work, which has been a successful element in its efforts to reduce injuries, deaths and damage to property as a result of fires.

The Mayor's priorities for LFEPA

- 6.3 The Mayor's budget guidance to LFEPA includes only two priorities specifically directed at the Authority in addition to the overall priorities that apply to the whole GLA group. The two priorities are as follows.
- a. 'Maintain front line services by implementing the modernisation agenda and deriving benefits from a risk-based approach to fire safety issues';
 - b. 'Promote equality in the workforce'
- 6.4 The emphasis on 'front line services' raises the question of how front line services are defined, and what will become of important services that do not fall within that definition.
- 6.5 The Mayor's list of priorities for LFEPA is much shorter than the list included in the budget guidance issued by the previous Mayor. Several items have been removed, including those referring to fire safety checks, which are central to the Authority's efforts in recent years to increase its work on fire prevention rather than fulfilling a largely reactive role. We were concerned to see the apparent shift in emphasis in the budget guidance from fire prevention to responding to incidents. However, representatives from LFEPA assured us that there would be no shift away from fire prevention activities.
- 6.6 Ron Dobson, Commissioner of the London Fire and Emergency Planning Authority, pointed out that a number of those priorities were reflected in the Mayor's guidance to the GLA group as a whole, which are applicable to LFEPA in addition to the two priorities specifically set out for LFEPA. The Commissioner told us that other activities were statutory responsibilities in any case, so their removal from the budget guidance did not mean that they would no longer be delivered.
- 6.7 Cllr Coleman FRSA AM, Chairman of LFEPA, told us that the absence of certain items from the list of LFEPA's budget priorities should not be interpreted as a shift in emphasis. He said that there was no such shift, and that since fire safety work was largely carried out by on-duty officers whilst not responding to incidents, there was no reason to assume that there would be any reduction in the level of activity in this area.

- 6.8 **The Mayor's consultation draft budget must clearly show the impact of any budget reductions on fire safety checks and other fire prevention measures. We shall also examine closely the Mayor's consultation draft budget for LFEPA in order to assess the impact of his financial planning guidance on the numbers of firefighters and appliances. We recommend that the consultation draft budget should clearly illustrate the 2008/09 numbers and the projected numbers of firefighters and appliances over the three years covered by the consultation draft budget.**

The Mayor's financial planning guidelines to LFEPA

- 6.9 LFEPA's government grant will increase by only 0.5 per cent in 2009/10. The Mayor's budget guidance is designed to compensate LFEPA for this loss of income to enable it to increase its net revenue expenditure by 1.75 per cent in 2009/10 and 1.25 per cent in 2010/11 and 2011/12.
- 6.10 LFEPA's budget for net revenue expenditure in 2009/10 will be £432.7 million, a reduction of £2.2 million compared to the previously published budget of £434.9 million. As is the case for the Metropolitan Police Service, the impact of the Mayor's guidance is more significant in 2010/11, when LFEPA's net revenue expenditure budget will be £6.5 million less than the previously published figure of £444.7 million.
- 6.11 The published budget included savings of £9.4 million in 2009/10, of which £4.2 million had not yet been identified. The published budget for 2010/11 includes savings of £12.5 million, of which £6.5 million had not yet been identified. When these unidentified savings are added to the reductions in net revenue expenditure compared to previous plans, LFEPA will need to identify savings or reductions of £6.4 million in 2009/10, rising to £13 million in 2010/11. However, we note that these figures are cumulative, so the target amount for 2010/11 will be reduced if LFEPA identifies recurring savings in 2009/10. (Note: these figures are based on the Mayor's published budget 2008/09.)
- 6.12 The following table shows the impact of the Mayor's budget guidance on LFEPA's share of the council tax precept, assuming that movements in reserves remain as previously planned.

<i>£m</i>	2008/09	2009/10	2010/11	2011/12*
Net Revenue Expenditure	425.3	432.7	438.2	443.6
Previously planned reserves movements	-20.2	-9.6	0	0
Budget requirement	405.1	423.1	438.2	443.6
Grant	257.0	258.3	259.6	260.9
Income required from council tax precept~	148.1	164.8	178.6	182.7
Year-on-year change in precept income		16.7	13.8	4.1

* This table assumes a continued 0.5 per cent increase in LFEPA's grant funding in 2011/12.

~ This table does not take account of changes in the tax base or any potential surplus or deficit in council tax collection.

- 6.13 The above table shows that unless LFEPA is to make larger calls on its reserves than previously planned, or identify savings beyond those already built in to its plans, its call on the GLA precept will increase by £16.7 million in 2009/10, and by a further £13.8 million in 2010/11. The reductions in the call on the precept of the GLA (£3.5 million) and MPA (£2.9 million) are not sufficient to balance this growth in 2009/10. It is therefore likely that

LFEPA will have to make a greater than planned use of its reserves in 2009/10 if the Mayor is to achieve an overall zero per cent increase in the council tax precept.

- 6.14 In previous years we have raised concerns about the sustainability of LFEPA's budget in the long term, given that it had been relying on drawing significantly from its reserves to fund its revenue expenditure. LFEPA embarked on a three-year plan in 2007/08 to make the budget sustainable. This involved drawing on reserves to fund revenue expenditure in each of the three years from 2007/08 to 2009/10, whilst identifying savings in the revenue budget year-on-year that would result in a balanced budget from 2010/11 onwards with a reduced, but prudent, level of reserves. LFEPA's reserves at the end of 2007/08 stood at £51.5 million (compared with £65 million in March 2007), including a general reserve of £25.1 million and £26.4 million that was earmarked for specific projects. This amounts to 12.5 per cent of LFEPA's net expenditure in 2007/08. There is therefore scope to draw on LFEPA's reserves to meet short-term shortfalls in its budget, provided that this is carefully planned and time-limited in order to provide a sustainable longer-term picture.
- 6.15 The Mayor's budget guidance indicates that the Mayor intends to issue guidance on the use of reserves once he has received initial information from the functional bodies during September and October. The Chairman of LFEPA told us that he expected LFEPA to draw on its reserves only to fund front line services in future. If LFEPA is not to call on its reserves as previously planned in 2009-10, then it will need to reduce its expenditure accordingly.

Pressures on LFEPA's budget

- 6.16 LFEPA's budget will come under significant pressure over the next three years as a result of the 0.5 per cent increases in government grant, the pressures on its budget, and the Mayor's budget guidance, as well as the inflationary factors which will affect the other functional bodies. On top of these, LFEPA faces a number of other potential pressures.

Resilience

- 6.17 LFEPA incurs expenditure as a result of its role in preparing for disasters in London, also known as resilience. It is this expenditure which LFEPA claims is the primary reason for LFEPA's use of reserves and the unsustainability of its budget. LFEPA drew £24.6 million from its reserves in 2006/07, £22.6 million in 2007/08 and £17.2 million in 2008/09 to fund resilience expenditure not covered by government grant. The remainder of the shortfall was made up from savings (£7.6 million in 2008/09) and funding from the council tax precept.
- 6.18 The Chairman of LFEPA told us he would vote to add it to LFEPA's call on precept if the advice of professional officers indicated that additional spending beyond government grant levels were necessary in order to protect Londoners. To date the additional costs of resilience work have been met through a combination of use of reserves (£17.2 million in 2008/09), savings (£7.6 million in 2008/09) and GLA funding via the precept. However, once LFEPA's reserves have reached a 'core' level of £8 million, it will no longer be able to fund such expenditure through the use of reserves.³⁹ If current levels of expenditure are to be continued, they will have to be funded either through further savings, government grant, or further calls on the council tax precept.

³⁹ Report to LFEPA Finance Procurement and Property Committee, 8 September 2008, Agenda item 5: 'Budget Update and Medium Term Financial Strategy' page 4

Firefighter pay

- 6.19 If LFEPA's budget were to increase in line with inflation, its net revenue expenditure would increase to £446.6 million in 2009/10, which is £13.9 million more than is provided for by the Mayor's budget guidance. As noted elsewhere in this report, calculating the real-terms reduction in available resources is difficult, but this figure provides an indication the magnitude of the difference between an increase in line with inflation and the increase that is permitted under the Mayor's financial planning guidelines. Annual pay increases for firefighters are negotiated nationally, and LFEPA therefore does not have full control over the impact of salary inflation on its budget.

Costs associated with the 2012 Olympic and Paralympic Games

- 6.20 Work is still underway to reach an agreement with the Government on funding for costs associated with the Olympic Games. Given the Mayor's commitment not to increase expenditure funded from the council tax precept, if the Government does not fully fund these activities LFEPA will have to review the implications for the work they are undertaking and planning in advance of the 2012 Olympic Games. The other options are that the expenditure could be offset by savings elsewhere, or 'mainstreamed', which we assume means 'funded from other sources'. The unfunded costs associated with the Olympic Games are as follows:

	£000
2008/09	807
2009/10	1,028
2010/11	1,356
2011/12	1,722
2012/13	2,705
TOTAL	7,618

- 6.21 We recommend earlier in this report that the consultation draft budget should include a full breakdown of Olympic Games-related costs and how they will be funded.

Increased debt charges

- 6.22 The way in which LFEPA has managed shortfalls in funding in recent years has been to defer borrowing and capital expenditure whilst making use of available capital receipts. For instance, LFEPA borrowed £17.7 million less than it had planned in 2007/08. This means that the debt charges associated with that borrowing have been deferred to 2010/11.⁴⁰ This will result in an increase of £686,000 in debt charges in 2010/11, adding to the pressure on the budget for that year.

Rising energy costs

- 6.23 As noted earlier in this report, LFEPA's energy costs are expected to increase by £2.1 million in 2009/10.⁴¹

⁴⁰ London Fire and Emergency Planning Authority Finance Procurement and Property Committee, 8 September 2008, Agenda item 5, page 5

⁴¹ LFEPA Finance Procurement and Property Committee, 8 September 2008, Agenda item 5, pages 9-10

How will LFEPA achieve the required savings or reductions in its budget?

- 6.24 The Chairman of LFEPA told us that in his firm view the required savings in 2009/10 were achievable without having any impact on 'front line services'. The Chairman told us he was aiming to go beyond the Mayor's budget guidance and achieve a zero per cent increase in LFEPA's call on the precept for 2009/10 without reducing the numbers of firefighters or appliances. LFEPA is planning to increase the firefighter headcount and number of appliances in order to serve the new fire station at Hornchurch.
- 6.25 The proposed freeze on LFEPA's call on the precept would require a reduction of 15 per cent in non-operational net revenue expenditure, which LFEPA has told us amounts to £9.2 million out of the non-operational budget for 2008/09. The Chairman believes that this would be achievable despite the below-inflation government grant award and despite the pressures on the budget arising from resilience costs, inflation and ill-health retirements.
- 6.26 In order to freeze LFEPA's call on the council tax precept, we calculate that LFEPA would have to make reductions or savings in its budget, or draw down from its reserves, by an additional amount of £16.7 million compared to the previously published budget for 2009/10. This would be in addition to the £6.4 million of savings or reductions required by the Mayor's budget guidance and previously planned savings targets.
- 6.27 LFEPA is looking at all areas of expenditure in order to identify potential savings, including the Fire Brigade Museum and the premises currently used to provide training.
- 6.28 In the medium term, LFEPA is seeking economies through integrating back office services with other parts of the GLA group. This could include legal services, human resources, and providing procedural and administrative support to the Authority and its committees.
- 6.29 Further budget adjustments might be possible in order to bring them into line with actual likely expenditure without having an impact on current levels of service. LFEPA has a history of underspends against its overall budget, though the underspend decreased from £16.6 million in 2006/07 to £9 million in 2007/08. The projected underspend for 2008/09 at the end of the first quarter was £3.1 million.⁴²
- 6.30 LFEPA has benefited financially from above-budget interest receipts over recent years. For 2007/08, the additional income was £2.4 million - 47 per cent - higher than the budgeted amount of £5.1 million. The following table shows that there has been a pattern over the last four years.

Year	Interest income over budget
2005/06	£2.8 million
2006/07	£2.5 million
2007/08	£2.4 million
2008/09 (projected)	£0.3 million

⁴² London Fire and Emergency Planning Authority, Finance, Property and Procurement Committee, 8 September 2008, agenda item 8, page 5

6.31 LFEPA has also received more income from other sources than planned in the last three years, as shown in the following table. In 2007/08, the additional income was 14 per cent above the budgeted amount of £22.5 million.

Year	Income over budget
2005/06	£4.8 million
2006/07	£2.3 million
2007/08	£3.1 million
2008/09 (projected)	£2.2 million

6.32 There may be opportunities to achieve savings by obtaining external funding for some of LFEPA’s fire safety and prevention activities. The Chairman of LFEPA argued that the work carried out by the London Fire Brigade with young people under the LIFE scheme should continue but should be externally funded in the future rather than being funded from LFEPA’s budget. It was not sustainable in his view, given the other budget pressures facing LFEPA, for LFEPA to continue to fund the LIFE scheme from its own resources. The Chairman told us that LFEPA was in ‘furious correspondence’ with the London Development Agency because it had refused an application to provide funding for the LIFE scheme. This points to a wider issue across the GLA group – how much money is passed between the GLA and functional bodies in the form of grants and other funding.

6.33 **For the purposes of transparency and clarity, we recommend that the consultation draft budget should include a statement of planned and anticipated transfers of funds within the GLA group.**

6.34 **LFEPA will need to deliver significant savings in 2009/10 and 2010/11 in order to balance its budget within the Mayor’s financial planning guidelines. There has been a clear commitment from LFEPA not to reduce its operational capacity, and the Chairman of LFEPA has also indicated that he does not intend to make use of LFEPA’s reserves other than to fund ‘front line services’. We recommend that the consultation draft budget should include details of proposed savings and budget reductions in each of the three years from 2009/10 to 2010/11, indicating what the operational impact will be in each case. The consultation draft budget should also include projected numbers of firefighters and appliances in each year compared to the 2008/09 baseline figures.**

7. The Mayor's spending proposals and priorities for Transport for London

7.1 Transport for London's (TfL's) budget is the largest of the GLA group, with gross expenditure amounting to £6.8 billion in 2008/09. Its responsibilities have increased as a result of the Metronet administration and subsequent TfL takeover of the Metronet PPP contracts, and will further expand if Crossrail construction work begins in 2010 as currently envisaged. The budget faces significant risks and cost pressures, particularly relating to the PPP and Crossrail together with risks to fares income if economic circumstances change. It will be challenging for TfL to deliver the Mayor's priorities and manage the cost pressures relating to the PPP and Crossrail within existing resources. We shall be examining the Mayor's budget proposals to assess the impact of these activities on other areas of spending within TfL.

The Mayor's priorities for Transport for London

7.2 The Mayor's budget guidance sets twelve policy priorities for Transport for London, as follows.

- a. Work towards delivering Crossrail on time and on budget
- b. Make public transport safer and more pleasant by increasing the number of police officers on buses, trains and at suburban stations; devoting more resources to tackling illegal minicabs; introducing more knife scanners at transport hubs and trial live CCTV on buses.
- c. Improve traffic flow and greater use of greener technologies on the bus fleet.
- d. Continue the vital upgrades of the London Underground infrastructure, prioritising line and signal upgrades to expand capacity and improve reliability.
- e. Reform the congestion charge by allowing payment by account and explore moving to a flexible pricing system.
- f. Re-open consultation on the Western Extension of the congestion charge zone and abide by the result.
- g. Make London a genuinely cycle friendly city by introducing a bicycle hire scheme and expanding secure car parking.
- h. Concentrate ongoing service improvements to the bus network in outer London, including a trial of orbital express routes.
- i. Deliver the Mayor's vision for a 21st century Routemaster by 2012.
- j. Continue tube-cooling innovations, and ensure new trains on the sub-surface lines include air conditioning.
- k. Maintain and enhance commitment to disabled friendly public transport, by implementing an effectively Dial a Ride system and ensuring the reliability of wheelchair ramps on buses.
- l. Phase out articulated buses.⁴³

7.3 Some of these priorities will not have significant short-term financial implications in the context of the overall budget of Transport for London. For instance, the competition to design a replacement for the Routemaster bus, and subsequent design and development

⁴³ Mayor's budget guidance for 2009/10, page 15

costs, are expected to be 'in the low millions' over the next four years, with Transport for London hoping to deliver at least a prototype within this mayoral term.

Crossrail

- 7.4 Transport for London will jointly fund Crossrail with the Department for Transport. It will also take on a proportion of the risk associated with the project. The Heads of Terms published in November 2007 envisaged that Transport for London would provide £7.7 billion of funding over ten years to fund the project. This was planned to be funded as follows.

Borrowing	£3.5 billion
TfL core contribution	£2.7 billion
LU interface savings	£0.4 billion
Sales of surplus land and property	£0.5 billion
Developer contributions	£0.3 billion
London planning charge	£0.3 billion
TOTAL	£7.7 billion

- 7.5 Transport for London is due to contribute £500 million in 2008/09 and £522 million in 2009/10 according to the Heads of Terms document. The largest element of Transport for London's contribution will be borrowing, supported by income from the non-domestic business rate. The revenue consequences of this borrowing are to be borne by Transport for London. Any long-term increase in the cost of borrowing would therefore have an impact on the affordability of TfL's contribution, which in turn could result either in a re-phasing of the Crossrail project or pressure on TfL to identify savings or reductions elsewhere in its budget in order to meet the costs.
- 7.6 Transport for London's existing business plan does not include Crossrail. The projections for income from sales of land and developer contributions will need to be reviewed in the light of the current economic situation, and the overall costs will need to be assessed in the context of increased inflation (for which Transport for London bears the risk). Clearly the successful delivery of this long-term project will be central to Transport for London's new business plan and may have an impact on other areas of TfL's budget.

The Tube Public / Private Partnership

- 7.7 The investment in the Underground will largely be delivered through the PPP contract with Tube Lines and the work previously undertaken by Metronet, which has now been transferred to London Underground. The costs of the Metronet administration and the ongoing programme of works to be delivered by London Underground are not reflected in TfL's existing business plan. Furthermore, there is uncertainty about the future costs of the PPP contract with Tube Lines. The PPP Arbiter recently announced his initial view of future costs for Tube Lines in the second 7 ½ years of its agreement with London Underground, which will run from 2010.⁴⁴ The Arbiter assessed the costs of the contract over the period in the range of £5.1 - £5.5 billion. In its submission to the Arbiter London Underground Limited projected costs of £4.1 billion suggesting a potential shortfall in funding in excess of £1 billion.

⁴⁴ [Arbiter publishes his initial view of future costs for Tube Lines, Press release, 9 September 2008](#)

7.8 In its response to the Arbiter's announcement, TfL reiterated its view that it expects any shortfall to be met by the Government.⁴⁵ Peter Hendy similarly told the Committee in July that 'if there is insufficient funding it is for the Government to make up the difference because we cannot'.⁴⁶ The Arbiter's guidance represents the start of a process of negotiation between the various parties; the aim is for final agreement to be reached by 30 June 2010. TfL's Managing Director, Finance, described to the Committee in July, before the Arbiter's announcement, the potential consequences of any Government failure to meet a shortfall:

"We are going through the Periodic Review which allows Tube Lines, in particular, to reprise obligations for the second period of the PPP. If that results in a significant increase above the levels that were originally provided for, that is something we need to balance against other parts of our overall budget, which might mean deferring or delaying other areas of capital expenditure that we would have wished to bring forward."⁴⁷

7.9 The Committee will examine in more detail the potential consequences of any funding shortfall when it considers the Mayor's Draft Capital Spending Plan in January next year. However, we were also told that any shortfall would create some additional pressures on TfL's revenue budget post 2010 given Tube Lines' responsibility for maintenance of the existing system and, to a lesser extent, any revenue implications of any scaling back of line upgrades resulting in operating fewer trains than were originally planned.⁴⁸

7.10 We understand that Transport for London and the Mayor are currently considering future capital commitments and clearly their thinking will be guided by the potential call on resources by the PPP.

⁴⁵ [Transport for London responds to PPP Arbiter's Guidance on Tube Lines second period funding, Press release, 9 September 2008](#)

⁴⁶ Minutes of Budget and Performance Committee, 22 July 2008, appendix 444, p. 9

⁴⁷ Ibid

⁴⁸ Ibid

Transport policing

- 7.11 The main significant new area of spending for Transport for London arising from the Mayor's priorities is its increased expenditure on transport policing. Transport for London is contributing £9.2 million towards the cost (£11.3 million) of an additional 440 PCSOs to be integrated into existing Safer Transport Teams by June 2009. The Transport for London contribution is funded from reductions in the marketing budget, as shown in the table below.
- 7.12 We have already recommended that the consultation draft budget should include a statement of planned payments or transfers of funds within the GLA group. We would expect this to include payments from TfL to the MPA to pay for transport policing initiatives.

Reductions	£000s
Budget reduction – ad hoc research projects	650
Efficiencies in distribution of visitor Oyster cards	500
Changes in Oyster marketing	250
Budget reduction – Personal Travel Plans programme	200
Budget reduction – Travel Awareness programme	200
Budget reduction – London Rail	200
Cancellation of The Londoner	1,500
Stopping TfL's annual contribution to GLA marketing	2,800
Cancellation of the £25 Congestion Charge marketing programme	2,900
TOTAL	9,200

- 7.13 These reductions are a significant proportion (17 per cent) of the total budget of £54 million.⁴⁹ Peter Hendy told us in July 2008 that he did not expect these reductions to have an adverse impact on the delivery of TfL's work programme. He also assured us that the full year cost of the officers (£18 million) would be found as part of the budget-setting process for 2009/10.⁵⁰
- 7.14 Transport for London will also be providing £3m for 50 additional British Transport Police officers to patrol suburban stations.⁵¹ The Mayor's manifesto pledged to fund these officers by reducing the Metropolitan Police Service's communications budget. However, this has not proved to be possible and the funding will now be provided by Transport for London. We have been told that work is underway to consider how the various transport policing initiatives could be coordinated and streamlined, and we are led to expect further developments during the budget-setting process.

⁴⁹ Budget and Performance Committee meeting 22 July 2008, Minutes appendix 3 p. 3

⁵⁰ Budget and Performance Committee meeting 22 July 2008, Minutes appendix 3 p. 1

⁵¹ Budget and Performance Committee meeting 22 July 2008, Minutes appendix 3 p. 4

Smaller-scale initiatives

- 7.15 Some of the Mayor's policies will be either cost-neutral or relatively small scale in the context of TfL's overall budget. They will nevertheless need to be reflected and the costs and funding sources identified in the Mayor's draft budget.
- 7.16 The proposal to scrap mid-year black cab inspections would be cost-neutral. Banning alcohol on the Tube cost around £29,000 in publicity and public information.⁵² We understand there is no additional budget provision for enforcement of this rule.
- 7.17 The Mayor announced in June 2008 a policy of providing free travel for injured war veterans. This will cost around £900,000 annually and will come into place on 2 November 2008.
- 7.18 The cancellation of the Venezuela oil deal will result in savings of £67,000 from the closure of the office in Caracas. Transport for London 'will continue to provide discounted travel to Londoners with valid Bus and Tram Discount cards in the usual way until the cards expire'. The Mayor's fares announcement in September 2008 included a scheme to provide discounted travel to those on Income Support a part of the overall fares package from January 2009. It also included an extension of the Freedom Pass to 24 hours. The costs and changes in projected income resulting from this fares announcement have not yet been provided to us, as we discuss below.
- 7.19 Transport for London is preparing to introduce an additional 34 dedicated taxi enforcement officers at an estimated cost of £1 million per year. This will be funded through existing funding arrangements between TfL and the MPS.

Initiatives and policies that are not yet costed

- 7.20 Some of the Mayor's manifesto commitments and policy priorities are not yet costed.
- The cost of phasing out articulated buses will not be known until the first tender processes take place in June 2009⁵³.
 - TfL has not yet published details of the cost of introducing air conditioning and Tube cooling technologies, the first of which will be introduced in 2010.
 - The cost of making the Congestion Charging scheme payments system more flexible will not be known until the new contract is negotiated with IBM in 2009.
 - The costs of increased river transport services and other related initiatives will be made clear once detailed proposals have been developed.
 - The details and costs of the proposed cycle hire scheme in central London are also not yet known.
- 7.21 All of these initiatives will have to be funded from within the resources available to Transport for London, given the Mayor's financial planning guidelines which do not provide any increase in income from the council tax precept, and his decision on fares which will result in additional income of £30 million per annum which is intended to cover existing demands on resources rather than his manifesto commitments.

⁵² Letter from Peter Henty to the Committee, published on the agenda for the Budget and Performance Committee, 4 September 2008, item 4 appendix Bi.

⁵³ Information given by TfL to Budget and Performance Committee meeting 22 July 2008; TfL has since indicated that bids with alternative costs for articulated and non-articulated buses will be received by November 2008

Transport for London income

- 7.22 The Mayor has not yet made any public statements about his intentions for the overall level or distribution of investment in London's transport infrastructure or the allocation of resources between different modes of transport – his budget guidance refers only to Transport for London's call on the precept, which is £12 million. However, the Mayor has indicated that he wishes to see continued investment in the Underground, and the successful delivery of Crossrail, as outlined above. The Mayor has signalled that there will be 'tough decisions' on unfunded projects, and that he does not intend to provide further funding to support the Cross River Tram.
- 7.23 The Mayor's guidance to Transport for London continues the freeze on its component budget requirement of £12 million for each of the next three years. This is a negligible proportion of TfL's gross expenditure of £7,699 million (2008/09). TfL's budget is funded from six main sources:
- Government grant
 - Fares and ticket income
 - Charges under the Congestion Charging Scheme
 - Prudential borrowing
 - Secondary revenue (such as advertising and property rentals)
 - Third party funding for specific projects, such as the extension of the Piccadilly line to Heathrow Terminal 5
- 7.24 Projections of income from most of these sources (apart from government grant) are only available for 2009/10,⁵⁴ the last year of the current business plan period for Transport for London. The new business plan will be presented to the TfL Board in October 2008 and will cover the period to 2017/18.

Government grant

- 7.25 Transport for London has a government grant settlement up to 2017/18. Total government grant in 2009/10 will be £2,793 million, an increase of 4.6 per cent on the 2008 figure. The Government has also committed to providing funding within specified limits for the Metronet administration and post-administration costs. This includes £1.7 billion to cover Metronet's debts and £630 million from 2007/08 to 2010/11 to cover the cost of funding already in place for the Metronet companies. The risk will be borne by Transport for London.

Prudential borrowing

- 7.26 Transport for London may undertake prudential borrowing within limits set by the Government. For 2008/09, TfL plans to borrow £890 million. This will decrease to £600 million in 2009/10, and after that the borrowing limit will reduce to £300 million in 2010/11 and then increase again to £400 million in 2011/12.

⁵⁴ TfL Business Plan 2005/06 to 2009/10, December 2007, page 68

Fares income

- 7.27 The Mayor is empowered by the GLA Act to set Transport for London's fares. Transport for London's published business plan assumes fare increases in January 2009 in line with the Retail Price Index,⁵⁵ which would result in a five per cent increase based on the current Retail Price Index. TfL's published business plan includes fares income of £2,967 million in 2009/10,⁵⁶ an increase of five per cent, or £142 million, compared to 2008/09.
- 7.28 The Mayor has announced a fares package for January 2009 that would increase fares overall by RPI plus 1%. This will generate an additional £30 million, bringing the total increase in fares income to £172 million from 2008/09 to 2009/10. The Mayor told us that the above-inflation increase was 'wholly irrelevant to our manifesto commitments'. The increase was, the Mayor told us, necessary to fund TfL's investment programme and achieve a balanced budget over the ten-year planning period. We requested figures from Transport for London at our meeting on 4 September 2008 to explain what income and cost projections lay behind the new fares package, but we have not yet (as at 6 October 2008) been provided with this information.
- 7.29 **In announcing the above-inflation fares increase for 2009/10, the Mayor referred to a shortfall of £80 million in TfL's budget, and a 'black hole' of £2 billion over ten years, which the fares increase was intended to address. However, we have not been provided with any detailed figures to support these assertions. The consultation draft budget should include a detailed account of how this deficit has emerged.**

Income from the Congestion Charging Scheme

- 7.30 Income from the Congestion Charging Scheme is difficult to predict at the moment. The business plan published in December 2007 includes income from the Congestion Charging Scheme of £377 million, an increase of 5.6 per cent, or £20 million, compared to 2008/09. The business plan included provision for the costs of the emission-based charging scheme - £10 million has already been spent, and there was a planned £8 million in further development costs with £2 million annual operating costs. The business plan did not include projected income from the emissions-based charging scheme, which was expected to be in the region of between £29 million and £49 million for 2009/10⁵⁷ and £20 million to £60 million for 2010/11.⁵⁸
- 7.31 The Mayor is consulting about the western extension of the Congestion Charging Zone now. The costs of the consultation will be between £500,000 and £1 million.⁵⁹ If the extension were withdrawn, it would be a 'fairly sizeable reduction' in the income.⁶⁰ However, Peter Hendy, Commissioner, Transport for London, told us that Transport for London has not yet calculated the financial consequences of withdrawing the western extension and will do so if necessary on the basis of the results of the public consultation. We were surprised to be told that no calculations had yet been made, given the progress that has been made by Transport for London in making progress in costing and funding other new mayoral initiatives.
- 7.32 **We recommend that as soon as Transport for London has calculated the financial implications of withdrawing the western extension, those figures should be**

⁵⁵ Budget and Performance Committee meeting 22 July 2008, Minutes appendix 4 p. 7

⁵⁶ TfL Business Plan 2005/06 to 2009/10, December 2007, page 68

⁵⁷ Budget and Performance Committee meeting 22 July 2008, Minutes appendix 4 p. 12

⁵⁸ Budget and Performance Committee agenda, 4 September 2008, Item 4 Appendix Bi

⁵⁹ Budget and Performance Committee agenda, 4 September 2008, Item 4 Appendix Bi

⁶⁰ Budget and Performance Committee meeting 22 July 2008, Minutes appendix 4 p. 13

provided to the Committee in order for us to consider them as part of the budget-setting process.

Other income

- 7.33 Transport for London's existing plans assume income of £321 million in 2009/10, which is £16 million (five per cent) more than the budget for 2008/09. There was an under-achievement of advertising income in 2007/08 as a result of lower than anticipated revenues and delays in installing electronic advertising on the Underground network.
- 7.34 The existing plans for Transport for London provide for a decrease in its net services expenditure from 2008/09 to 2009/10 of £205 million. This is largely the result of reductions in planned capital expenditure – there was a peak in planned capital expenditure on London Rail in 2008/09, which will reduce from £822 million to £315 million from 2008/09 to 2009/10. This is partly offset by a planned increase in capital expenditure on London Underground from £597 million to £816 million.⁶¹

Transport for London - conclusion

- 7.35 **Overall, the new Mayor's policies should not be expected to result in significant changes in TfL's revenue expenditure profile, nor in its investment programme in relation to the Underground. We recommend that the consultation draft budget should clearly address the following key issues.**
- a. **Paying for and delivering investment in the Underground;**
 - b. **Paying for Crossrail;**
 - c. **TfL's commitment or otherwise to major new projects such as the Cross River Tram;**
 - d. **The anticipated financial implications of the Mayor's commitments to phase out articulated buses and introduce a replacement for the Routemaster.**

⁶¹ Mayor's consolidated budget for 2008/09, page 25

8. The Mayor's spending proposals and priorities for the London Development Agency

8.1 The London Development Agency (LDA) is the economic development body for London. It is responsible for delivering the Mayor's Economic Development Strategy, and will also oversee the development of the Olympic Village and is a guardian of the legacy of the Olympic and Paralympic Games. The Agency was mired in controversy in the run-up to the 2008 Mayoral and Assembly elections and has been the subject of inquiries and investigations by the police, the District Auditor, the Mayor's Forensic Audit Panel, as well as the London Assembly. Shortly after the election, a new chair and chief executive were installed at the Agency with a mission to reform it, make it more effective and efficient, and restore its reputation. The key challenge facing the Agency in the immediate term is to deliver the reorganisation quickly and demonstrate improvements in the Agency's efficiency and effectiveness as soon as possible thereafter.

The Mayor's priorities for the LDA

8.2 The Mayor's priorities for the LDA are as follows.

- a. Restructure business support services to encourage business start up and help existing businesses to grow.
- b. Increase LDA's work with young people by funding youth community groups providing mentoring schemes [and] developing community sports projects.
- c. Work with the [London Skills and Employment Board, Learning and Skills Council] and Job Centre Plus to deliver the Mayor's skills agenda including: creating a single umbrella brand for skills training and advice; creating a 'one stop shop' for Londoners to access skills and training advice; increasing literacy and numeracy training, employability skills and ESOL training.
- d. Maximise skills training opportunities presented by 2012 Olympics and 2011 WorldSkills Olympics.
- e. Channel funding to the London Waste and Recycling Board to improve recycling rates.
- f. Campaign to promote age equality in the workplace.

The LDA's budget

8.3 The London Development Agency makes no call on the council tax precept; its expenditure (£516.7 million in 2008/09) is funded mainly through government grant and prudential borrowing.

8.4 As is the case in relation to Transport for London, it will be important for the Agency to have a degree of certainty about grant income over several years if it is to plan its investments over the length of time that should be expected from a strategic organisation. The LDA's grant income had been expected to be relatively stable and predictable, but recent news coverage suggests that the Government is proposing to reduce funding to regional development agencies, including the London Development Agency, in order to fund housing initiatives in response to the credit crunch. According to news reports, the Government will cut funding to the LDA by £5.3 million in 2008/09, £4.4 million in 2009/10, and £48.3 million in 2010/11. Peter Rogers, Chief Executive of the LDA, told us that such cuts would fundamentally affect what the LDA does. He said that there was uncertainty about the LDA's funding in two years' time.

Reforming the LDA

- 8.5 The LDA was the primary focus of the Forensic Audit Panel, and the panel made a number of recommendations aimed at improving the Agency's efficiency and effectiveness. Peter Rogers, Chief Executive of the LDA, told us that the report broadly reflected the direction of travel that had already been identified by the new leadership of the organisation. We will examine the Mayor's draft budget to assess the extent to which it reflects the findings and recommendations of the Forensic Audit Panel and expect to comment on this in further detail in future reports.
- 8.6 The LDA is undergoing a period of change under new leadership appointed following the May 2008 Mayoral election. The Agency says it will aim to do fewer, bigger projects and to achieve better value. It will become more demand-driven and more focused on outcomes such as economic activity, rather than funding programmes aimed at particular issues such as skills, sports participation or youth provision. The financial and practical implications of these changes should become clearer later this year. At this point in time it is too early to assess the extent or nature of the changes that are being implemented, and what impact those changes will have on the performance and effectiveness of the Agency in promoting and supporting economic development in London.
- 8.7 We welcome the Chief Executive's emphasis on the importance of effective governance and transparency, and the steps that have already been taken to increase the transparency of the LDA Board by publishing its papers on the LDA website. The papers include a document setting out the advice and direction provided by the Mayor. This is a welcome step towards making the interactions between the Mayor's office and the LDA clearer, and providing greater transparency as to the basis of decisions taken by the board.
- 8.8 The Chief Executive, Peter Rogers, told us in September 2008 that the Agency was developing targets based on outcomes, and improvements in the way in which objectives and timescales are set as well as how decisions are made and projects managed. The new targets will be included in the Agency's new business plan, which will be available in January 2009. In advance of that the Chief Executive told us we should expect to be able to see details of the areas of activity that the Agency will no longer undertake. We will be seeking clear and detailed information on this aspect of the Agency's budget proposals for 2009/10, in the context of the recommendations made by the Forensic Audit Panel, the emphasis on fewer, larger projects, and the Mayor's budget guidance and policy priorities. The LDA is currently undergoing a corporate planning process out of which will emerge priorities.
- 8.9 **The Mayor has made at least two announcements suggesting that the London Development Agency will have an ongoing role in supporting smaller projects, such as those aimed at providing sports facilities and the Mayor's tree-planting scheme. It will be interesting and important to see how these commitments fit in with the new emphasis of the LDA on fewer, larger projects as recommended by the Forensic Audit Panel and espoused by the Chief Executive and the new board. This will be a crucial element of any assessment as to the extent to which the reforms of the LDA result in changes in the nature and effectiveness of its programmes.**
- 8.10 **We recommend that the Mayor's consultation draft budget should include a clear statement about the proposed extent of the LDA's support for smaller scale projects. It should also set out clearly what proportion of the LDA's budget is proposed to be used to commission projects and how funds used in this way will be safeguarded; set out the budgetary implications of the London 2012 Olympic and**

Paralympic Games; and provide details of anticipated grants and other payments from the LDA to the GLA and functional bodies.

9. Conclusion

- 9.1 At this stage in the budget-setting process, there is much more clarity as to how much money will be spent than what it will be spent on. In particular, it is not yet clear which areas of activity across the GLA group (other than discontinuing *The Londoner* and ending the Venezuela oil deal) will be reduced or stopped in order to meet the Mayor's financial planning guidelines and deliver the Mayor's manifesto commitments.
- 9.2 We do not want to see any unnecessary reduction in the level or quality of front-line services provided by the functional bodies, and we want to see the GLA itself fulfilling a positive and productive role in London. During the rest of the budget process, we will be pressing the Mayor to identify his spending priorities beyond the relatively small-scale initiatives that have already been announced, and pressing for clear details of any reductions or savings that are proposed. We have made a number of recommendations in this report that are intended to enable us to pursue these issues.
- 9.3 We will also be examining the Mayor's budget proposals to see the extent to which they reflect the findings of the Forensic Audit Panel, which itself was intended to fulfil a key manifesto commitment (to launch a review of City Hall finances within 100 days).
- 9.4 In a context of real-terms cuts in available resources, there is a risk that the debate will be skewed towards what the reductions or savings will be. The overall amount of expenditure is important, and we shall be paying close attention to any reductions or efficiencies that are put forward in order to comply with the Mayor's budget guidance. However, perhaps more importantly, a genuine drive towards greater value for money will require positive direction as to how the remaining money should be applied in order to achieve a clear and defined set of outcomes. Such direction is essential if the new Mayor is to avoid the risk of the GLA and functional bodies changing their plans around the margins in order to deliver relatively small scale new initiatives rather than bringing about any significant changes in order to deliver the Mayor's priorities. Worse than that, an absence of clarity as to overall spending priorities runs the risk of leaving parts of the GLA group uncertain as to what they are supposed to do.

Appendix 1 - List of recommendations

Given the high profile of the Forensic Audit Panel, and the fact that the GLA spent public money (£50,000) on it, we recommend that the Mayor's consultation draft budget should highlight which of the Mayor's proposals are intended to implement the Panel's recommendations. It should also identify which of the recommendations are not to be implemented and provide an explanation as to why not.

The consultation draft budget must be accompanied by a draft corporate plan showing how the Mayor's priorities will be translated into programmes and projects within the GLA to deliver specific objectives. We recommend that the Mayor urgently issue guidance setting out his proposed business planning objectives for the GLA in order to enable them to develop budget proposals that will deliver those objectives.

We note that there is now an emerging framework for the priorities of the new administration. However, it lacks detail of objectives, new initiatives and programmes aimed at delivering those priorities. The Mayor's draft consultation budget should provide full details of objectives and the related new initiatives and programmes. It should show the total cost of those initiatives in each of the three years covered by the budgets and provide information as to how they will be funded. It should also say what the intended outcomes are of any shifts in policy and how the Mayor proposes that those outcomes should be measured.

The consultation draft budget should make clear what specific measures are to be introduced within the GLA and each functional body in order to deliver the priority relating to climate change, including information as to the cost, objectives and intended outcomes. It should also set out how value for money will be assessed in relation to this work, and provide details of any existing or planned work relating to climate change that will not be taken forward.

We recommend that the draft GLA budget and the draft consultation budget for the GLA group should include a clear definition of value for money and, in relation to each area of expenditure, it should set out how value for money will be achieved and demonstrated. We would expect the definition and measurement of value for money to draw on appropriate benchmarks and good practice, and recommend that the draft budget refer to these as appropriate.

We repeat the recommendation of our predecessor committee that the Mayor should consult the Assembly and the public before making any further decisions about fares. This consultation should be integrated so far as possible into the rest of the budget-setting process in order that the Mayor's proposals may be considered in the round.

If inflation continues at July 2008 rates, it will result in significant pressure on the budgets of the GLA group. We recommend that the Mayor's consultation draft budget should set out clearly what inflation rates and other cost pressures are assumed within budget projections for the GLA and each functional body.

We recommend that the Mayor's consultation draft budget should include information showing the assumptions underlying projections of income for the GLA and functional bodies.

We recommend that the Mayor's consultation draft budget should include a separate statement of the costs and funding of Olympic Games-related activities.

We recommend that the Mayor's consultation draft budget should include revised projections of the amount and revenue cost of planned prudential borrowing by each functional body. The draft budget should also include, within each component budget, information showing what assumptions

have been made in relation to: the costs of prudential borrowing; the contribution of the private sector to major projects; and projected interest and capital receipts.

The Mayor has asked for budget submissions covering the period at least to 2011/12. We request that the consultation draft budget should identify clearly the amounts of efficiencies and budget reductions that will be required for each component budget, as well as setting out the costs of new initiatives and proposed areas of growth. It should itemise any savings or reductions that have already been identified and describe what the process and timescales will be for identifying further savings. This will enable us to assess the extent to which the required savings will be made by efficiencies and the extent to which reductions will be required beyond those efficiencies. It will also enable us to judge the extent to which the planned levels of savings are achievable, as opposed to unidentified savings being included in the budget as a balancing figure.

We recommend that the Mayor's consultation draft budget should identify projected numbers of police officer numbers, as well as the amount of time expected to be spent by police officers on front line service delivery. If there is to be a halt in the growth in police officer numbers in London, this must be fully debated and discussed, and convincing and effective measures must be put in place to ensure that the capacity of the Metropolitan Police Service continues to increase even if their total numbers do not.

We recommend that the Mayor's consultation draft budget should set out his policy on the reserves of each of the component parts of the GLA group, the principles underpinning his policy, and his assessment as to appropriate levels of reserves over the three-year planning period.

A costed plan for the security elements of the Olympic and Paralympic Games is due by the end of 2008. We recommend that the Mayor's consultation draft budget should, so far as possible, include details of the anticipated costs to the MPA and how these will be met in each of the three years from 2009/10 to 2011/12.

The MPA will need to identify significant savings in order to comply with the Mayor's financial planning guidelines over the next three years. There is a large provision for unidentified savings, and the MPA will face pressures from inflation and other financial and economic factors. We recommend that the Mayor's consultation draft budget should include details of proposed savings or budget reductions for 2009/10 and, so far as possible for 2010/11. The document should also explain what other potential savings or reductions are under consideration and what their scale and impact would be.

We recommend that the draft budget for the GLA, due to be released to us for consultation in November 2008, should illustrate the changes to existing plans in order to deliver the new Mayor's priorities. This should include clear indications as to how new initiatives will be funded, and which areas of work are planned to be reduced or stopped.

We recommend that such an explanation should also be provided in relation to each functional body in order to provide clarity as to how the new Mayor's spending plans will differ from previously published plans.

The Mayor's consultation draft budget must clearly show the impact of any budget reductions on fire safety checks and other fire prevention measures. We shall also examine closely the Mayor's consultation draft budget for LFEPA in order to assess the impact of his financial planning guidance on the numbers of firefighters and appliances. We recommend that the consultation draft budget should clearly illustrate the 2008/09 numbers and the projected numbers of firefighters and appliances over the three years covered by the consultation draft budget.

For the purposes of transparency and clarity, we recommend that the consultation draft budget should include a statement of planned and anticipated transfers of funds within the GLA group.

LFEPA will need to deliver significant savings in 2009/10 and 2010/11 in order to balance its budget within the Mayor's financial planning guidelines. There has been a clear commitment from LFEPA not to reduce its operational capacity, and the Chairman of LFEPA has also indicated that he does not intend to make use of LFEPA's reserves other than to fund 'front line services'. We recommend that the consultation draft budget should include details of proposed savings and budget reductions in each of the three years from 2009/10 to 2010/11, indicating what the operational impact will be in each case. The consultation draft budget should also include projected numbers of firefighters and appliances in each year compared to the 2008/09 baseline figures.

In announcing the above-inflation fares increase for 2009/10, the Mayor referred to a shortfall of £80 million in TfL's budget, and a 'black hole' of £2 billion over ten years, which the fares increase was intended to address. However, we have not been provided with any detailed figures to support these assertions. The consultation draft budget should include a detailed account of how this deficit has emerged.

We recommend that as soon as Transport for London has calculated the financial implications of withdrawing the western extension, those figures should be provided to the Committee in order for us to consider them as part of the budget-setting process.

Overall, the new Mayor's policies should not be expected to result in significant changes in TfL's revenue expenditure profile, nor in its investment programme in relation to the Underground. We recommend that the consultation draft budget should clearly address the following key issues.

- a. Paying for and delivering investment in the Underground;
- b. Paying for Crossrail;
- c. TfL's commitment or otherwise to major new projects such as the Cross River Tram;
- d. The anticipated financial implications of the Mayor's commitments to phase out articulated buses and introduce a replacement for the Routemaster.

The Mayor has made at least two announcements suggesting that the London Development Agency will have an ongoing role in supporting smaller projects, such as those aimed at providing sports facilities and the Mayor's tree-planting scheme. It will be interesting and important to see how these commitments fit in with the new emphasis of the LDA on fewer, larger projects as recommended by the Forensic Audit Panel and espoused by the Chief Executive and the new board. This will be a crucial element of any assessment as to the extent to which the reforms of the LDA result in changes in the nature and effectiveness of its programmes.

We recommend that the Mayor's consultation draft budget should include a clear statement about the proposed extent of the LDA's support for smaller scale projects. It should also set out clearly what proportion of the LDA's budget is proposed to be used to commission projects and how funds used in this way will be safeguarded; set out the budgetary implications of the London 2012 Olympic and Paralympic Games; and provide details of anticipated grants and other payments from the LDA to the GLA and functional bodies.

Appendix 2 - List of meetings

The Budget & Performance Committee, as part of this investigation, held meetings on the following dates and at each meeting held discussions with the guests listed.

19 June 2008

Patience Wheatcroft, Chair of the Mayor's Forensic Audit Panel

22 July 2008

Kit Malthouse AM, First Deputy Chair of the MPA and Deputy Mayor (Policing)

Ken Hunt, Treasurer, MPA

Sir Paul Stephenson, Deputy Commissioner of Police of the Metropolis

Anne McMeel, Director of Strategic Finance, MPS

Peter Hendy, Commissioner, TfL

Steve Allen, Managing Director, Finance, TfL

Anthony Mayer, Chief Executive, GLA

Martin Clarke, Executive Director, Finance & Performance, GLA

4 September 2008

Boris Johnson, Mayor of London

Martin Clarke, Executive Director of Finance and Performance, GLA

Shashi Verma, Director of Fares and Ticketing, TfL

Peter Rogers, Interim Chief Executive, LDA

Andrew Travers, Group Director, Resources and Risk, LDA

Brian Coleman, Chairman, LFEPA

Ron Dobson, Commissioner, LFEPA

Barbara Riddell, Director of Resources, LFEPA

Sue Budden, Head of Finance, LFEPA

Appendix 3 – Principles of London Assembly scrutiny

An aim for action

An Assembly scrutiny is not an end in itself. It aims for action to achieve improvement.

Independence

An Assembly scrutiny is conducted with objectivity; nothing should be done that could impair the independence of the process.

Holding the Mayor to account

The Assembly rigorously examines all aspects of the Mayor's strategies.

Inclusiveness

An Assembly scrutiny consults widely, having regard to issues of timeliness and cost.

Constructiveness

The Assembly conducts its scrutinies and investigations in a positive manner, recognising the need to work with stakeholders and the Mayor to achieve improvement.

Value for money

When conducting a scrutiny the Assembly is conscious of the need to spend public money effectively.

Appendix 4 – Orders and translations

How to Order

For further information on this report or to order a copy, please contact Ian Williamson, Scrutiny Manager, on 020 7983 6541 or email: ian.williamson@london.gov.uk

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Chinese

如您需要这份文件的简介的翻译本，
请电话联系或按上面所提供的邮寄地址或
Email 与我们联系。

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.

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.

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.

Punjabi

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

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।

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।

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۔

Arabic

الوصول على ملخص لهذا المستند بلغة،
فرجاء الاتصال برقم الهاتف أو الاتصال على
العنوان البريدي العادي أو عنوان البريدي
الإلكتروني أعلاه.

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.

