

**Greater London Authority**

**Report of the Mayor's Forensic Audit Panel**

**15 July 2008**

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## Glossary of terms and abbreviations

Assembly	The London Assembly as established by the Greater London Authority Act of 1999, as amended by the Greater London Authority Act 2007
BERR	The Department for Business, Enterprise and Regulatory Reform: BERR leads the Government's drive to raise UK levels of productivity, create the conditions for business success and strengthen the economic performance of all regions
CIP	The Corporate Investment Panel: the primary LDA body with responsibility for approving or rejecting project grant proposals
CLG	Department of Communities and Local Government: government body that sets policy on local government, housing, urban regeneration, planning and fire and rescue
Design for London	Design for London (DfL): reporting directly to the Mayor of London and works closely with staff at the LDA, TfL and GLA, DfL's mission is to support the delivery of well-designed projects across London, and to make sure that design excellence is reflected within all projects that the mayoral agencies commission or fund
Functional Bodies	The four entities contained within the GLA and like the GLA, established by the Greater London Authority Act 1999: <ul style="list-style-type: none"><li>• Transport for London</li><li>• The Metropolitan Policy Authority</li><li>• The London Development Agency</li><li>• The London Fire and Emergency Planning Authority</li></ul>
GLA	Greater London Authority: a form of strategic citywide government for London, consisting of the Mayor, the London Assembly and the staff who assist them in their duties
GLA Executive team	The team appointed by the Mayor and the Assembly to lead the activities of the GLA

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GLA Family	The GLA group including Transport for London, the Metropolitan Police Authority, the London Fire and Emergency Planning Authority, the LDA, the Museum of London and the London Skills and Employment Board
GMT	Group Management Team: the Chief Executive and the Group Directors of the LDA and any other Directors or persons invited to sit on the GMT as a full member
Governance	The arrangements to oversee the activities of the GLA and LDA as defined in Section 5
GRADE	Guidance for RDAs in Appraisal, Delivery and Evaluation: project management guidance issued by the Department for Business Enterprise and Regulatory Reform
LBHF	London Borough of Hammersmith and Fulham
LDA	London Development Agency: one of the four Functional Bodies accountable to the Mayor as a member of the GLA group, whose broad remit is to implement projects to develop and sustain London
LOCOG	The London Organising Committee of the Olympic and Paralympic Games is responsible for preparing and staging the 2012 Games
London First	London First is a business membership organisation with the mission to make London the best city in the world in which to do business
Mayor	The Mayor of London as established by the Greater London Authority Act of 1999 and as amended by the Greater London Authority Act 2007 (and as differentiated from the London Mayor of London, whose appointment related purely to the City of London)
Metropolitan Police Authority	The Metropolitan Police is the largest of the police services that operates in greater London (the others include the City of London Police and the British Transport Police)
ODA	The Olympic Delivery Authority is the public body responsible for developing and building the new venues and infrastructure for the Games and their use post 2012
Panel	The Forensic Audit Panel formed by the Mayor on 8 May 2008 which comprises Patience Wheatcroft (Chairman), Patrick

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	Frederick, Stephen Greenhalgh and Edward Lister
RDA	England's Regional Development Agencies (RDAs) were first launched in 1999, with the LDA following in 2000. Their mission is to spread economic prosperity and opportunity to the nine regions of England through providing strategic direction for economic development
SLA	Service Level Agreement: the part of a service contract in which the level of service is formally defined, usually describing the minimum service criteria that a provider promises to meet
SPAG	Single Programme Appraisal Guidance: guidance for the appraisal and evaluation of RDA Single Programme spending, issued by the Department of Trade and Industry
TfL	Transport for London – one of the four Functional Bodies contained within the GLA; it is responsible for the entire transport network in London including tubes, buses, Dockland Light Railway, trams and taxi cabs
WCAP	White City Area Programme: large-scale programme funded by the LDA, encompassing thirteen separate projects focussed on reducing worklessness in the LBHF
Worklessness	The Department of Work and Pensions defines worklessness as 'people of working age who are not in formal employment but who are looking for a job (the unemployed), together with people of working aged who are neither formal employed nor looking for formal employment (the economically inactive)'

# 1 Introduction and background

## Introduction

- 1.1 Following his recent election, the Mayor of London announced on 8 May 2008 the formation of a Forensic Audit Panel ("the Panel") to investigate financial management and controls at the London Development Agency ("LDA") and the Greater London Authority ("GLA"). The Panel comprises:
- (a) Patience Wheatcroft (Chairman), former editor of The Sunday Telegraph and currently non-executive director of Barclays plc and Shaftesbury plc;
  - (b) Stephen Greenhalgh, Leader of Hammersmith and Fulham Council;
  - (c) Patrick Frederick, Chief Executive of Aimex International and former Head of Global Custody Operations for JPMorgan; and
  - (d) Edward Lister, Leader of Wandsworth Council.

Andrew Gordon, the Head of Investigations within the Forensic Services group of PricewaterhouseCoopers LLP ("PwC"), acts as Independent Expert Adviser to the Panel and additional experts from PwC have been called upon to assist the Panel in its work.

- 1.2 The Panel was tasked with recommending procedures to increase probity and transparency as well as identifying areas within the GLA and the LDA where efficiencies can be made and resources redirected to the new Mayor's priorities without compromising on performance.
- 1.3 The Panel has been granted widespread access to people and documents. However, in the limited time available, we have confined our interviews primarily to Board and Assembly members and executives and we have had to be selective in our review of documents, projects and financial information. We have also been careful not to compromise ongoing police investigations. Nevertheless, we have been able to plan and conduct our work so as to be able to identify what we believe are the key findings and recommendations.
- 1.4 The Panel would like to thank the GLA and LDA management and staff for the cooperation they have given us. In this report we acknowledge that the new management team has already begun the process of making many of the necessary improvements to the control environment and is committed to implementing a more robust system of governance and management. In addition, the Panel thanks both Steve Scotland and Katy Johnson (senior members of the Squares and Business Development team at the GLA) for the valuable assistance they have provided to the Panel in their liaison and support role.

- 1.5 In its interim report, published after 30 days, the Panel reported its preliminary findings. At that stage, subject to further validation, the Panel expressed concerns regarding:
- (a) The extent to which absolute expenditure on grants incurred by the LDA may have been regarded as a measurement of success rather than objectively observed results;
  - (b) Instances in which the Mayor's advisers may have exerted pressure on the LDA for various decisions to be made, possibly for political motives;
  - (c) The potential duplication of functions among the various GLA constituent groups and the apparent opportunity for rationalisation; and
  - (d) The apparent lack of clarity over the relationships between and governance structures of the GLA and the LDA.
- 1.6 In its second 30 days, the Panel has continued its work to further investigate and validate these preliminary findings and has carried out new work in the core areas of governance, expenditure, the awarding of grants and the role of the LDA. In the remainder of this final report, we set out the work undertaken, findings and conclusions of the Panel, under the following headings:

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- 1.7 This report has been prepared for and only for the Mayor of London in the context of his assessment of the GLA and LDA governance structures, the potential opportunities for efficiencies and cost savings to ensure value for money for London and the wider strategic planning for his Mayoral term of office. The Panel does not accept or assume any liability or duty of care or responsibility for any other purpose or to any other person(s).

## Background on the GLA and the LDA

- 1.8 London has a very different government structure to that in place elsewhere in the country, indeed it is unique in Britain. The position of Mayor and the GLA were established by the Greater London Authority Act of 1999 and their powers were amended by the Greater London Authority Act of 2007.
- 1.9 The post of Mayor and the GLA has only existed since 2000. In terms of the local government structure they are relatively new institutions. They do not have the same heritage, established ways of working and departmental structure as some other bodies within the local government structure.
- 1.10 The GLA and Mayor were interposed into the government structure in London and some pre-existing organisations found themselves within the influence of the Mayor and the GLA. The Mayor works closely with, sets the budgets for and appoints part or all of the Boards for:
- (a) Transport for London;
  - (b) the Metropolitan Police Authority;
  - (c) the London Fire and Emergency Planning Authority;
  - (d) the LDA;
  - (e) the Museum of London; and
  - (f) London Skills and Employment Board.
- 1.11 These organisations have links of varying degrees of strength to other public bodies. For example, the Metropolitan Police Authority and the London Fire and Emergency Planning Authority fall within the remit of the Home Office.
- 1.12 The LDA, which has been the primary focus of the detailed work underpinning this element of the report, is part of the complex Regional Development Agency arrangements. Regional Development Agencies are funded by and have relationships with six government departments:
- (a) Department for Business, Enterprise and Regulatory Reform;
  - (b) Department for Communities and Local Government;
  - (c) Department for Culture, Media and Sport;
  - (d) Department for Environment, Food and Rural Affairs;
  - (e) Department for Innovation, Universities and Skills; and



(f) UK Trade & Investment.

- 1.13 RDAs elsewhere in the UK are accountable through their Chairs to the Secretary of State and the Chief Executives are personally accountable for the effective and efficient management of public money to Parliament (through BERR, their sponsoring Department).
- 1.14 The GLA Act, however, repealed aspects of the RDA Act in relation to London and passed some responsibilities of the Secretary of State to the Mayor.
- 1.15 There is, therefore, considerable complexity in terms of responsibilities, relationships and reporting lines that impact upon the governance needs of the GLA and the LDA.
- 1.16 The GLA Act of 1999 defined the general power of the Authority as follows:

*'The Authority shall have power to do anything which it considers will further any one or more of its principal purposes:*

*(a) promoting economic development and wealth creation in Greater London;*

*(b) promoting social development in Greater London; and*

*(c) promoting the improvement of the environment in Greater London.*

*In determining whether or how to exercise the power conferred the Authority shall have regard to the effect which the proposed exercise of the power would have on the:*

*(a) health of persons in Greater London; and*

*(b) achievement of sustainable development in the United Kingdom.*

*Where the Authority exercises the power conferred it shall do so in the way which it considers best calculated to:*

*(a) promote improvements in the health of persons in Greater London; and*

*(b) contribute towards the achievement of sustainable development in the United Kingdom.'*

- 1.17 The GLA Act of 2007 supplements and updates the GLA Act of 1999 and grants the Mayor and the Assembly new powers. These give the Mayor new lead roles on housing and adult skills in London; a strengthened role over planning in the capital; and additional strategic powers in a wide range of policy areas including waste, culture and sport, health, climate change and appointments to the boards of the functional bodies.

## 2 Executive summary of findings and key recommendations

- 2.1 This executive summary is intended to provide a succinct overview of the Panel's key findings and its recommendations for actions to be taken. This summary should be read in conjunction with the full report.

### Key Findings

#### LDA

- 2.2 The LDA commenced operations in 2000 and since then has spent in excess of £3 billion of public funds. It currently has 649 established posts and last year its budget, including Olympic related expenditure, was approximately £740 million. Yet worklessness remains a major problem in London with 30% of working age residents not in employment, more than elsewhere in the UK.<sup>1</sup> The Panel identified failings in the LDA's leadership, governance and basic controls which have led to our overall conclusion that the former LDA board was ineffective.
- 2.3 These failings contributed directly to the well publicised problems which the LDA has encountered in the last 18 months including allegations of fraud and corruption involving GLA and LDA projects which are the subject of an ongoing police investigation.
- 2.4 They also contributed to other problems which the Panel identified, including a failure to develop appropriate systems for selecting and monitoring projects, a failure to share best practice amongst grant recipients and an excessive focus on spending the various project budgets available without adequate ongoing evaluation of value for money received.
- 2.5 A consistent theme that emerged from our interviews with former LDA Board members was that they recognised there were shortcomings in the Board structure and its activities. However, they failed to take action to address these. The LDA Board lacked clarity and remit, which in part led to the creation of a structure that responded to pressures on an ad hoc basis and, meanwhile, the organisation became "fat and siloed". It is no wonder the LDA became referred to as "the Mayor's chequebook". The LDA Board got carried along with this, but should have challenged more robustly and fixed the underlying structural and governance concerns they had themselves voiced.
- 2.6 Although in the last 18 months there have been significant improvements, the Panel found that as a consequence of the above issues, the LDA has failed historically to deliver value for money.

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<sup>1</sup> Source: "The London Story", study published by the London Skills & Employment Board in October 2007, drawing on GLA Economics analysis.

## **GLA and LDA interaction**

- 2.7 Although the LDA is technically an independent legal entity from the GLA, the latter organisation does have an official oversight role. The Panel found that this was not exercised effectively. While accounts were reviewed, and meetings attended, there was no effective monitoring of the performance that the LDA delivered.
- 2.8 While at the macro level the oversight of the LDA by the GLA was inadequate, at the micro level, the GLA's widespread involvement, particularly that of Mayoral Advisers, was at times inappropriate and excessive. Several of the cases currently being examined by the Metropolitan Police include the involvement of Mayoral Advisers. Although their attempts to influence LDA project decisions did not breach any rules or protocols, it led to a sense of confusion in the LDA regarding direction and accountability.
- 2.9 The example of the wide reaching delegated powers of the Mayoral Advisers quoted above is consistent with the even greater powers conferred on the Mayor himself by the Greater London Authority Act 1999. The Panel is concerned about the lack of any formal "checks and balances" over the power of the Mayor. Having reviewed the evidence and discussed the issue with current and former Assembly members, we question whether there exist at present sufficient powers within the London Assembly to hold the Mayor to account.

## **GLA and LDA: potential for cost savings and rationalisation**

- 2.10 The Panel believes that there are significant cost savings which could be achieved within the GLA Family<sup>2</sup>. By narrowing the activities it undertakes and operating more efficiently, we believe that a saving of 10% – 15% or 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.
- 2.11 A consistent theme to emerge from our interviews with past and present LDA Board members was their discomfort with the extraordinarily wide-ranging role of the organisation, for example ensuring the effective delivery of projects ranging in size from a multi-million pound regeneration project, such as Thames Gateway, to locally led employment training projects requiring tens of thousands pounds. The "mission" of the LDA was unclear.
- 2.12 We do not believe that the LDA, as it has been structured, has been the most effective mechanism for delivering what London needs in terms of job opportunities, skills enhancement and regeneration.

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<sup>2</sup> We use the term GLA Family to refer to the entities within the GLA group including Transport for London, the Metropolitan Police Authority, the London Fire and Emergency Planning Authority, the LDA, the Museum of London and the London Skills and Employment Board.

## Recommendations

- 2.13 We recommend that the role of the LDA should be redefined radically. We believe it should be a strategic enabler of all forms of generation (including economic regeneration) for London and not primarily responsible for delivery of projects. This responsibility would be discharged through the boroughs, the third sector and the private sector, working individually or in collaboration. The Panel believes that such a move would result not only in significant cost savings, but also in enhanced monitoring of delivery. Although the LDA itself would be significantly slimmed down, we envisage that much of its project delivery expertise might be redeployed.
- 2.14 The Panel believes that the effects of implementing this recommendation will be consistent with the "direction of travel" set by the new executive team at the LDA which seeks to:
- (a) move the LDA away from the detailed management of individual projects into more strategic areas, coordinating programmes of work and commissioning fewer but larger, more integrated projects, with more responsibility for collaboration and outcomes placed with those commissioned to deliver on behalf of the LDA;
  - (b) establish much greater levels of coordination and collaboration with other London entities to consolidate regeneration funding, eliminate inefficiencies from the need to manage multiple interfaces and deliver better outcomes for the people of London; and
  - (c) move the focus of the LDA onto the "pump priming" of activity i.e. injecting relatively small amounts of public monies into schemes so as to stimulate larger investment by the private sector, third sector or viable community groups. This will ensure that LDA funding maximises its value for money, creates sustainable benefit and that the initiatives that are funded do not become dependent upon the continued availability of further LDA funding.
- 2.15 We are aware that several initiatives are ongoing to address shortcomings in corporate governance at both the LDA and the GLA. These should include a review of the governance and related reporting arrangements for the GLA and LDA together to identify common elements that can be harmonised and to ensure that the governance arrangements over the LDA as exercised by the GLA, alongside those exercised by the Assembly, the Mayor, and the Board of the LDA are comprehensive but efficient.
- 2.16 We recommend that similar reviews should be conducted across the rest of the GLA Family, especially Transport for London.

- 2.17 As part of the above reviews, consideration should be given to ways in which the Assembly might be empowered to exercise some “checks and balances” over the power of the Mayor. A recurrent theme in our interviews was the perceived lack of any mechanism (beyond public meetings attended by the press) to restrict or challenge the absolute power of the Mayor.
- 2.18 The Panel also recommends that a protocol be developed concerning the levels of interaction between the GLA, particularly the Mayoral Advisers, and the LDA. We believe interaction with the LDA should be restricted to senior levels, to ensure that GLA staff are not able to bypass LDA reporting lines and put pressure on officers working at a project level.
- 2.19 The Panel believes that significant cost savings can be achieved both within the GLA and LDA individually and also by exploiting synergies across the GLA Family. We recommend that a thorough review be undertaken of the activities of these entities to identify the most fruitful areas, particularly those where efficiencies could be secured through greater levels of collaboration and cooperation.
- 2.20 Finally, whilst not the subject of our review, we have noted in this report concerns relating to Transport for London, where the annual GLA routed funding is in excess of £4 billion. We recommend that a thorough financial review be undertaken to analyse spending against budgets and identify any budgetary shortfalls, opportunities for cost savings and the wider strategic direction of travel.

### **3 GLA and LDA: income, expenditure and opportunities for cost savings**

#### **Introduction**

- 3.1 In this section of our report, we describe the work undertaken by the Panel in relation to GLA and LDA income and expenditure, and the possible opportunities for efficiencies and cost savings.
- 3.2 To undertake our work, we first carried out a desktop review of publicly available GLA and LDA information to produce an overview of activities and expenditure. This included the consideration of instances where the GLA appears to have adopted a coordinating role in projects that are neither statutory functions nor Mayoral priorities. In addition, we considered whether the GLA was assuming responsibility for projects that other bodies were better placed to lead and/or projects and initiatives that duplicated others already in progress elsewhere. This is described in paragraphs 3.20 to 3.40 below.
- 3.3 We then drilled down into areas which appeared to us worthy of further investigation, through:
- (a) a programme of interviews with GLA and LDA officers;
  - (b) a review of financial information requested and made available to us by the GLA and the LDA;
  - (c) a review of selected email correspondence between the GLA and the LDA; and
  - (d) in this way we were able to test our understanding of the funds flows and transactions, and challenge the approach taken in the case of some initiatives.
- 3.4 We also reviewed the GLA's and LDA's discretionary spending budget and actual costs incurred including expenditure on advertising and publicity as well as expenditure on consultants in general to ensure that contracts awarded complied with Standing Financial Instructions and delivered the agreed outputs.
- 3.5 Consistent with the Panel's terms of reference, we have not undertaken a review at other members of the GLA Family, namely the Metropolitan Police Authority, the London Fire and Emergency Planning Authority and Transport for London ("TfL"). Nevertheless, in the course of our conversations with officers and our review of financial data from both the GLA and the LDA, we identified a number of areas where costs savings could potentially be made elsewhere within the GLA Family (for example within TfL) without impacting on the provision of services and we recommend that these should be investigated further.

## Background

- 3.6 In 2006/07, general GLA grant from central government accounted for 26% of the Authority's revenue requirement. Local taxpayers accounted for 59% of the Authority's revenue requirement, with 19% being general council tax and 40% the element of council tax earmarked for the Olympics. The remaining funding for the Authority came from specific grants (1%), contributions from earmarked reserves (2%), interest (2%) and other income (10%).

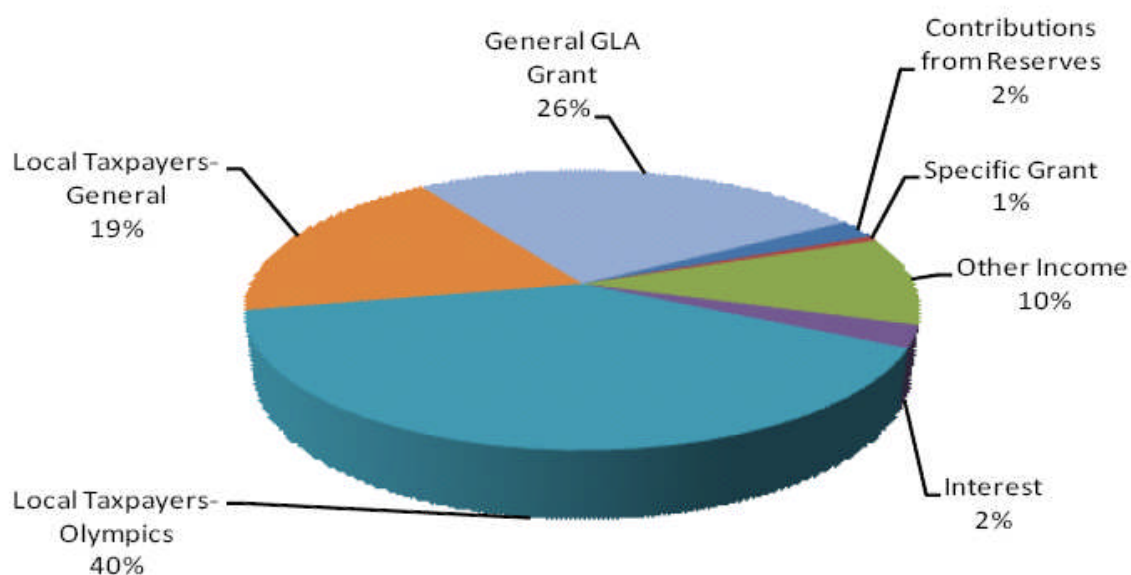


Figure 1: GLA revenue sources 2006/07 [source: GLA Accounts 2006/07]

- 3.7 As noted in the Introduction and Background section of this report (Section 1) the GLA is unique: while it follows Local Authority financial procedures, it does not provide services in the same way as other local authorities but acts as the strategic support to the Mayor and scrutiny support to the London Assembly. These functions are staff intensive and employee costs accounted for 26% of the Authority's expenditure, or 42% if the Olympics funding is excluded.

## Key areas of income and expenditure within the GLA

### Summary of GLA funding sources

- 3.8 The GLA receives precepts that are collected by the London boroughs through Council Tax payments and paid over to the GLA in ten annual instalments. The receipts from Communities and Local Government ("CLG") represent the GLA's share of the Rate Support Grant and National Non-Domestic Rates pool. The GLA effectively acts as banker, in that it receives central government grants in respect of other Functional Bodies (as listed in paragraph 3.9 below), before immediately transferring it to those bodies. The principal grant-paying departments are the Home Office (in respect of the Metropolitan Police), Communities and Local Government (in respect of the Fire and Emergency Planning Authority), Business Enterprise and Regulatory Reform (in respect of the LDA), and Department for Transport (in respect of TfL). The GLA receives its own grant (£38 million in 2007/08) directly from Communities and Local Government. Only a small amount of European funding is collected directly by the GLA. The other income collected directly by the GLA includes rental income, fees, charges and sponsorships.

Funding Source	2007/08 £m
Local Taxation (Precepts)	885
Department of Communities and Local Government ("CLG")	1,111
Other Government Departments	6,248
European Funding	9
Other Income	21
<b>Total</b>	<b>8,274</b>

Table 1: Summary of actual GLA funding in 2007/08

### Summary of GLA funding outflows

- 3.9 The majority of funding collected by the GLA is paid over to the Functional Bodies and the Olympic Delivery Authority. The GLA retains a small amount of funding (£88 million per table 2 below) in order to discharge its statutory duties and in 2007/08 this comprised GLA grant (£38 million), precepts (£29 million) and other income from rental income, fees, charges and sponsorships (£21 million).



<b>Funding Recipient</b>	<b>2007/08</b>
	<b>£m</b>
Olympic Delivery Authority	58
Functional Bodies:	
Metropolitan Police Authority	3,105
London Development Agency	399
London Fire & Emergency Planning Authority	391
Transport for London	4,233
<b>Total Outflows</b>	<b>8,186</b>
Retained within the GLA	88
<b>Total</b>	<b>8,274</b>

Table 2: Summary of actual GLA funding outflows in 2007/08

- 3.10 In the following sections we describe our work undertaken in two areas, first the high level desktop financial review and secondly the drill down into areas which we deemed to be of greatest relevance.

## High level review of possible cost savings

- 3.11 The following comments are based largely on a desktop review of the 2009/10 GLA revenue budget. On this basis we acknowledge that there may be circumstances which we are unaware of which justify the levels of expenditure and staffing which prima facie appear inflated. Nevertheless, the following areas are put forward as worthy of further consideration by the GLA with a view to saving monies without negatively impacting the delivery of services.
- 3.12 Mayor's Office: we identified a degree of overlap with the LDA with reference to economic development, business planning and the cultural strategy. This budget includes the net cost of the GLA office in Brussels, although EU social funds are directed through the LDA as opposed to the GLA. There are also possible inefficiencies in Public Affairs and Transport, as well as Events for London, where £1.7 million is planned to be spent in 2009/10. We believe it is likely that savings could be made by reviewing and reducing the scope and depth of this programme.
- 3.13 Media and marketing: this includes the costs of the marketing and publicity department, as well as the Communications support unit. To some extent the level of staffing and other support reductions achievable depends on the degree of overlap with the Functional Bodies and programme economies elsewhere which will reduce the need for services. A significant reduction over the next three years should be achievable with a potential de-layering of the second tier of management being a possible area for savings.

- 3.14 Policy and Partnerships: this Directorate is responsible for supporting the Mayor's strategic role in London, the development and maintenance of the various statutory plans and for undertaking research. Environment, with 39 posts, is the largest of the seven teams, covering a wide range of environmental issues and the preparation and implementation of six statutory plans. We find it difficult to see how this level of overhead can be justified and staff reductions should be achievable though rationalising plans, particularly any which are non-statutory, and by reviewing some items in the 2008/09 plan that appear capable of being undertaken by other bodies. One example of this is the GLA's current proposal to invest in the improved collection of weather data, an initiative which could possibly be undertaken more efficiently by the Met Office. There are equivalent potential savings in the Policy Support and Planning Decision units. The roles of the Olympic and Thames Gateway delivery units need to be clarified, ensuring that there is no overlap with the Olympic Delivery Authority.
- 3.15 Finance and Performance: it was not clear to the Panel why some teams and activities are included within the Strategic Finance and Performance Group. For example:
- (a) it has separate Community Safety and Equalities teams, although comparable work is undertaken both within the GLA itself and elsewhere in the GLA Family;
  - (b) the Squares and Business Development Group primarily looks at what the GLA itself is doing in terms of a performance management framework and is complementary to the Financial Services Group. The main outlier within this Group is the role of managing Parliament and Trafalgar Square, which appears intuitively to be an odd mix of skills; and
  - (c) the Economic Development and Transport Group has a role monitoring the performance of TfL and other transport providers.
- 3.16 It is difficult to justify these teams which appear to duplicate activities being undertaken both within the LDA and TfL as well as in parts of the Mayor's Office and the Policy and Partnership Directorate. We believe that Performance Management should be embedded into the Functional Bodies (LDA and TfL) thereby allowing the monitoring role to be reduced largely to an information gathering role with minimum GLA staff input.
- 3.17 Corporate Services Directorate: there are five back office functions, the largest of which is Facilities Management. There could be savings in this area through outsourcing these functions or through staffing review. Similarly, there is scope for savings within the other support service functions currently delivered in house – HR, Legal and Procurement Services, IT and Research/Statistical groups with one option being outsourcing.

- 3.18 Elections: based on the 2007/08 and 2008/09 budget, the cost of the 2008 election was in excess of £18 million. The likely budget for 2012 is therefore in the region of £20 million. Based on the average cost of one of the larger London borough's local elections in 2004, after some indexing to 2012 prices, the aggregate cost across the 32 London boroughs is less than £15 million. Even without allowing for economies of scale, savings of up to £1 million per annum in the form of reduced contributions to reserves are we believe a realistic target in this area. The view of the potential lack of value for money of the current arrangements was supported by a recent independent report of the 2008 elections.<sup>3</sup>
- 3.19 There is also the potential for savings in connection with London TravelWatch and the Business Support and Business development teams. The role of the latter two groups should be critically analysed particularly with regard to the comments later in this report (paragraphs 3.48 and 3.49) on the role of the finance function. There are also potential areas of duplication with the events team.

### **Areas where the GLA may be involved in services already covered by other entities**

- 3.20 We have identified potential areas where there may be some overlap in the roles performed by GLA and LDA officers, as well as duplicating the work of other Functional Bodies. We have discussed these areas with officers in the GLA and the LDA to gain an understanding of the nature of services performed. We set out the relevant criteria below and indicate where there may be potential to realise savings in the GLA through an alternative approach to service provision.

#### The Olympics

- 3.21 This is a strategic project of fundamental importance to London and consequently, there are a number of bodies involved in preparation for the Olympic and Paralympic Games 2012. We have clarified that clearly defined roles have been established and that responsibilities are broadly as follows:
- (a) Olympic Delivery Authority ("ODA") – responsible for infrastructure and construction, including the development of buildings and venues as well as landscaping and transport arrangements;
  - (b) GLA – small team of 6 officers monitoring the progress made by ODA and reporting to the Mayor. The team's role is to ensure that the Mayoral priorities for London (such as sustainability, job creation) are fully incorporated into the activities of other organisations;

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<sup>3</sup> Report of the Open Rights Group (ORG), which was accredited by the Electoral Commission.

- (c) LDA – responsible for Olympic legacy and environmental regeneration. This is to be achieved through housing programmes, landscaping of parks and green spaces as well as the socio economic legacy of job creation and training; and
- (d) London Organising Committee of the Olympic Games (“LOCOG”) – this private sector organisation is responsible for preparing and staging the games themselves, financed through ticket sales and sponsorship.

3.22 These roles seem to be clearly defined. The GLA's team of six covers Thames Gateway as well and staff costs are less than £0.5 million per annum. GLA officers have commented that there is a strong cooperative relationship between the GLA and the LDA in this respect, with regular and effective communication. We have not identified any inefficiencies or duplication of roles.

3.23 In 2007/08, £20 per London household was levied through the Council Tax to meet the costs of preparing for the Olympic and Paralympic Games. This was collected by London boroughs and remitted to the GLA, before being paid directly to ODA. A proposition is for an element of this funding to be retained by the GLA, enabling it to discharge its leadership role. In 2007/08 the GLA met the costs of running this team through its core revenue budget.

3.24 We are concerned about the previous Mayor's commitment to provide a further £300 million for the Olympics, not from increases in council tax or TfL fares. Given the propensity of major capital infrastructure projects such as the Olympics to incur costs overruns, the Panel welcomes the work being undertaken by David Ross to identify risks and issues requiring further attention in connection with the 2012 Olympic Games.

### Overseas offices

3.25 The GLA meets the costs of running the GLA Family's Brussels office, whereas other overseas offices (such as those in India, China and Russia) are funded by other Functional Bodies. The Brussels office has had a principal role at the centre of European policy-making, to enable the GLA to be aware of and influence the debate on any forthcoming European legislation impacting upon London. It has a different remit from the other overseas offices, which are primarily concerned with creating inward investment for London. The net cost to the GLA of running this office is in the region of £0.4 million per annum.

3.26 The Deputy Mayor's review has addressed possible duplication of work done in Brussels by the GLA and other organisations representing London, such as the City of London Corporation, London councils and the British Embassy. Without seeking to prejudge the decisions of the Deputy Mayor's report, the current arrangements appear to be neither efficient nor coordinated in terms of the messages that the various London bodies are sending out to Europe.

## Economic Development

- 3.27 The Economic Development and Transport group has a staff of 20 officers and a net budget of just under £1 million. The Mayor has statutory economic development duties and the majority of these are exercised through the LDA. The GLA has a team of nine officers, whose work is focused on the LDA, although an important non-GLA function is their work in relation to the London Skills & Employment Board. The Mayor also has to undertake specific duties in respect of tourism, EU funding (such as the European Social Fund and European Regional Development Fund) and Economic Development Accountability.
- 3.28 The work done by the GLA team is entirely strategic and does not involve the implementation of projects. The GLA also undertakes the role of independent reviewer and expert adviser on economic issues.
- 3.29 There is a small private sector liaison team within the GLA that works with business. There could be potential for closer working with this team to ensure that no overlap exists between the activities of the two departments. There is also some scope for rationalisation between the GLA and the LDA, such as links into London First and their role in promoting London. The GLA oversight of the LDA has been ineffective in the past. As with other GLA activities, it needs to be more orientated towards performance management.

## Transport

- 3.30 The transport team (nine staff) acts as the Mayor's representative on transport issues, reporting on both TfL and non-TfL work (such as aviation). Most of the statutory London transport responsibilities fall to the Mayor rather than to TfL. The team's responsibilities include:
- (a) Preparing briefings for the Mayor on transport issues;
  - (b) Ensuring that TfL delivers on its objectives. The performance management element of this role is very small as TfL publishes comprehensive key performance indicators; and
  - (c) Communication with external parties on transport issues. This includes responding to Mayor's questions, general correspondence received and media relations.
- 3.31 The Mayor requires similar teams to act on his behalf for the Metropolitan Police Authority and the London Fire and Emergency Planning Authority, although the Mayor has less responsibility in relation to those two Functional Bodies.

- 3.32 We recommend that the level of work undertaken by the transport team should be reviewed. There would be an argument for reducing the size of the team if TfL were to be left to act according to instructions (such as in a private sector parent company and subsidiary relationship). However, experience in dealing with queries received from members of the public has shown that TfL and the Mayor sometimes adopt different approaches. For this reason, an element of GLA intervention is considered by officers to be advantageous.

### **GLA initiatives overlapping with existing bodies' competencies**

- 3.33 We have reviewed three initiatives on which the GLA incurs expenditure in order to consider the extent to which they result from statutory obligations and the Mayor's priorities and/or whether other bodies might be better placed to provide the service in question.

#### Weather stations project

- 3.34 Data on London's weather has historically been collected by the Met Office from three weather stations located across London. The GLA has assessed, however, that this data is of poor quality, making it difficult to generate reliable projections of London's long term weather trends, as well as the current and future effects of climate change.
- 3.35 The GLA has determined that baselines need to be established and following assessment of the data currently held, measures need to be implemented to drive up quality and start collecting any information that is currently missing. The GLA has taken on this role as it could not identify any other body willing to lead on this initiative. Currently £30,000 has been spent by the GLA in scoping a study, with the Met Office possibly contributing an equivalent amount.
- 3.36 If the GLA is to assume responsibility for this initiative, there are likely to be future financial commitments in excess of the initial cost of £30,000. An immediate decision should be taken regarding the merits of the GLA continuing to lead on this initiative and whether or not other bodies such as the Met Office or local universities would be better placed to provide a lead.

#### Drain London

- 3.37 The Drain London Forum was created by the GLA in 2006 in an attempt to counter the threat of flooding arising from climate change. The drainage network across London is said to be extremely complex and fragmented, with multiple owners and stakeholders and there was no single reliable GIS (Geographic Information System) map presenting a reliable overview of the location and condition of the infrastructure. This has impaired the ability to determine with precision the risk of London flooding.

- 3.38 The project is to bring all of London's drains under the management of a single entity in an attempt to formulate a unified strategy of flood risk reduction. Officers have explained how the GLA initially sought to persuade other bodies to lead on this initiative, without success. So far the GLA has incurred costs of just £28,000 on this initiative (out of a total estimated cost to date of £72,000) – the remainder being funded by contributions from other stakeholders. Further external funding is to be sought as the project develops.
- 3.39 The project is clearly of strategic importance to London but we would like to see assurance that the external funding will be forthcoming.

### Squares Management

- 3.40 The GLA has statutory responsibility for the management of Trafalgar and Parliament squares. At present responsibility with this lies within the finance and performance directorate. There appears to be no logical synergy for this. Day to day management would lie better on an agency basis with TfL or Westminster City Council who would have the necessary infrastructure skills and management, with events being co-ordinated through the events team.

### **Possible other areas where savings can be made without compromising performance**

#### Preparation for shared services

- 3.41 The formation of a single back office providing common services and serving all Functional Bodies should generate significant economies of scale and unlock potential savings. We have set out in this review to establish whether there is any appetite for such an initiative. We have discussed the theme of common services and the agenda for doing things together with the GLA officers and understand that work is underway to explore further sharing of services.
- 3.42 It is recognised that moving to a shared services and common IT platform will likely necessitate a significant one-off up-front investment, but the payback in terms of future cost savings and efficiencies should be significant.
- 3.43 Another service that might benefit from being delivered by a single provider is payroll. At present each of the Functional Bodies has different arrangements, including a mix of outsourcing and in house provision. GLA officers have advised us that a business case for a common solution to payroll provision is currently being drafted.

- 3.44 There has been a jointly funded procurement group based at TfL for at least the previous twelve months. The responsibility rests with TfL at present as the nature of its business requires proportionally greater levels of procurement than is the case across the rest of the GLA Family. This group is looking closely at realising other economies of scale, which is commensurate with the agenda of convergence and doing things together. The purchasing of publications is a good example of this, as well as a joint GLA Family tender for courier services and temporary staff.
- 3.45 The GLA is mindful of the need to encourage small London businesses and so they are often invited to bid for small contracts. But anything larger tends now to be procured across the GLA Family as opposed to through a single Functional Body. TfL subscribes to this initiative and the GLA is now talking more to the LDA. The Metropolitan Police are moving closer to subscribing to the joint procurement strategy whereas the Fire and Emergency Planning Authority favours a joint procurement solution, but is less enthusiastic regarding finance and IT.
- 3.46 All parties are now included on any EU procurement, in order to avoid expensive separate arrangements and contracts beginning and ending at different times.

#### Support to the London Assembly members

- 3.47 The non-salary cost of support to London Assembly members totals £2.66 million, or over £106,000 per member. The cost of this support would seem difficult to justify to the ordinary London Council tax payer being either secretarial, administrative or media support. There are no performance measures in place to ensure that staff are being effectively used and consideration should therefore be given to ways of reducing this cost and the development of a performance regime to ensure that these resources are being used cost effectively.

#### **Role of the Finance function**

- 3.48 It is our view that the importance of the finance function within the GLA is insufficiently recognised, in particular with regard to decision making. As a result, there is a risk that policy decisions are taken in a vacuum without regard to their overall financial impact. The role of the finance function should be reviewed and strong consideration should be given to the removal of overlap between the finance teams in service areas and the central finance team to create one strong central finance team with clear links to the service areas. There is no need, in our view for the subdivision of the finance function within an organisation which is strategic by nature and has a relatively small staff group. Centralisation of the function will improve clarity of financial reporting.



- 3.49 We suggest that all policy reports should in future have a comment under the name of the appointed Section 127 officer (Finance Director) stating the effect the decision will have on the budget and on the GLA levy both in absolute monetary terms but also expressed as Band D Council tax. In addition there should be a regular update on the cumulative effect that these decisions are having on the future years' precept. This would remove the potential vacuum and enable both the Mayor and the Assembly to see the long term financial impact of individual decisions.

### **Focused review of small number of areas of high risk**

- 3.50 As a result of the above analysis and based on the Panel's experience of areas where funds are wasted through inefficiency and mismanagement, we drilled down in greater depth into the following areas.

#### **Publicity and advertising**

- 3.51 Including amounts spent on TfL, the GLA incurred expenditure on publicity, advertising and other promotional activities of £7.9 million in 2007/08. Officers have provided us with an analysis of costs, summarised in the table below:

<b>Expenditure Category</b>	<b>£'000</b>
Publications	1,623
Printing	525
Advertising	1,035
Staffing	4,132
Other (Premises/ Supplies & Services etc)	606
<b>Total</b>	<b>7,921</b>

**Table 3: Analysis of expenditure on publicity, advertising and other promotional activities in 2007/08**

- 3.52 Some 80 full time equivalents are engaged in delivering publicity and advertising services. Of these, 63 are in the media and marketing cost centres, which includes Mayor's Media Relations, the Communications Support Unit and the core marketing department. The total of salaries charged to these cost centres is £4.1 million (including on costs).
- 3.53 The most significant area of spend is in Public Affairs and Transport, where a net £1.6 million non-staff expenditure is incurred on Events for London (expenditure £7.1 million and income of £5.5 million). In the time available, neither central nor service area finance staff were able to provide us with a complete breakdown of the elements making up this total. As suggested in paragraphs 3.48 and 3.49 above, it is possible that if there were just one strong central finance team with clear links to the service areas, the timely availability of accurate information would be enhanced.

- 3.54 Design for London was formed in December 2006 from the amalgamation of architect and design teams from across the GLA, TfL and LDA. However, in December 2007, a decision was made to locate the entire team in the LDA. Four payments amounting to £0.5 million were made by the GLA to the LDA in order to fund the 20 posts that transferred. This team had a role in preparing the London Plan and so the transfer of responsibility should reduce the burden of London Plan costs falling on the GLA in the future.
- 3.55 The Mayor has already stated that he will no longer produce the Londoner and will instead use this funding to plant street trees. The net cost to the GLA for the Londoner is £0.9 million each year or over £3 million gross per annum.
- 3.56 There may also be scope for reviewing the list of events offered through Events for London; it is possible that a detailed critical analysis could generate substantial savings, particularly if entire events such as the 'Rise Festival' (which cost over £300,000) were cancelled. Careful consideration should be given to the rationale behind such events so as to avoid a repeat of the Caribbean Showcase debacle which cost over £300,000 in 2006 and, as described in our interim report, is now being investigated by police due to allegations of misuse of funds.
- 3.57 To some extent the level of staffing and other support reductions achievable within the Media and Marketing cost centres depends on the degree of overlap with the Functional Bodies and programme economies elsewhere, which will reduce the need for services. We believe, however, that a de-layering of the second tier of management could yield significant savings. As an example of the potential benefits, a 20% saving would generate a net budget reduction of £760,000.

### **External consultants and agency staff**

- 3.58 A total of £4.7 million was spent on external consultants by the GLA in 2007/08. The majority of this expenditure was incurred by the Policy & Partnerships Directorate (£3.2 million). The four largest contracts by annual expenditure within this directorate were selected for testing, as well as two other significant contracts (over £50,000) from the Corporate Services directorate.
- 3.59 These were examined in order to gain an understanding of the nature of the service provided by the consultant. We considered whether it was appropriate for the GLA to be coordinating these services and whether the contract complied with the GLA's Standing Financial Instructions, such as the requirements for competitive tendering.
- 3.60 Based upon our review of documentation and discussion with officers, two of the contracts satisfied the above criteria:

- (a) Brook Lyndhurst Ltd (£56,250) – Climate change mitigation project. Although this is not a statutory function of the GLA, climate change is a Mayoral priority. The contract was let competitively and is fully funded from DEFRA<sup>4</sup>'s National Climate Change Awareness Programme; and
- (b) Volterra (£192,000) – this is the firm founded by the GLA's Chief Economist, Bridget Rosewell. She is not a GLA officer and Volterra is the consultancy firm that charges for her services. Bridget Rosewell was originally engaged in 2002. Three tenders were received and Volterra was successful. In 2003/04 a framework for procurement under EU criteria was created and Volterra was placed on it. The GLA went out to tender for economic services and all 21 companies on the framework were invited to bid. Volterra was again successful and was awarded a three year contract 2004-06 with an option to extend. Bridget Rosewell has a team of eight GLA officers reporting to her and she has provided economic advice on significant strategic schemes affecting London, such as CrossRail. TfL and the LDA reimburse the GLA where economic advice received benefits them directly and this is an example of effective joint working within the GLA Family.

3.61 Our findings in relation to the remaining four contracts can be summarised under two broad categories:

- (a) The expenditure relates to a statutory function or a Mayoral priority, but the contract in question was not let competitively:
  - (i) Encams (£459,633.74) – Capital Standards Street Environmental Improvement Programme. The aim of this programme is to assist London's local councils to achieve sustained improvements in the cleanliness and general environmental condition of public streets and spaces in London. The methodology developed by Encams is used to undertake the Annual Local Environmental Quality Survey of England and to produce an annual report for DEFRA. The value of the contract was largely covered by the Capital Standards contributions received from 28 of the London boroughs, with the GLA contributing £26,000 plus inflation per annum. However, the contract was not let competitively and there was a waiver of the Contracts Code to support the decision. Encams appears to have been selected in the absence of an attempt to identify alternative providers of this service;

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<sup>4</sup> Department for Environment, Food and Rural Affairs.

- (ii) Building Research Establishment (£60,000) – the Mayor is required to assess planning applications against certain criteria, including the energy efficiency of the proposal, and to assess whether developers have complied in full with the London Plan. The developers will complete an Energy Survey, and Building Research Establishment's role is to review this survey for ways to improve the energy-efficiency of the proposal. The GLA was unable to recruit to this post, given the high cost and specialist nature of the expertise required. The view was taken that the service offered by Building Research Establishment was unique and so the contract was not to be let competitively, with a waiver of the Contracts Code being required to support the decision.
  
- (b) The contract was let competitively, but it was questionable at the outset as to why the GLA needed to commission work of this nature:
  - (i) LDA (£100,000) – this payment relates to the Tottenham Court Road improvement scheme, which is listed as an area for development in the London Plan, a project involving Westminster and Camden councils. The GLA contracted with Design for London (DfL), which is a division of the LDA to deliver this contract. DfL progressed the initial work as the GLA had neither the time nor resources to undertake such a large, complex long-term project in-house. DfL then selected a contractor (Farell) through a competitive process. Agreement was reached with the LDA to transfer £100,000 of £120,000 the GLA had originally received from the LDA to progress the scheme. DfL would then project manage the Tottenham Court Road master plan work and the GLA would use the remaining £20,000 to convert the master plan document into an opportunity area planning framework (also known as an "OAPF"). We have requested formal documentation from officers to clarify this arrangement, as well as their understanding as to why it was necessary for the GLA to have a role in this improvement scheme in the first instance;

- (ii) London Wildlife Trust (£62,700) – this contract is being undertaken as part of the Mayor's Biodiversity Strategy and involves conducting surveys of the quality of open spaces and wildlife habitats across the London boroughs. The original 2004 contract was let through an OJEU tender process<sup>5</sup>. The contract contained a clause allowing two one year extensions if considered necessary and this payment is to secure the first of those extensions. Whilst the GLA appears to have complied with its Standing Financial instructions, it was not possible in the time available to confirm that the Mayor considered the cost-effectiveness of a range of solutions when seeking to discharge his obligations under the Biodiversity Strategy, and that sufficient outputs were received from the contractor ultimately selected.

3.62 In addition to the six contracts above, we have examined a number of smaller GLA consultancy contracts in the range £5,000 to £30,000, i.e. beneath the threshold for which full competitive tendering is required. In all cases we established that outputs which appeared appropriate had been received, and that the work was either consistent with one of the Mayor's statutory function or was part of a Mayoral priority.

## **Key areas of income and expenditure within the LDA**

### **Summary of LDA funding sources**

- 3.63 As described above, following on from our review of certain key areas of expenditure within the GLA, we undertook a review of similar areas of expenditure at the LDA. Again, the objective of our work was to consider at a high level whether public funds were being wasted as a result of mismanagement, overstaffing or other inefficiencies. As with GLA, our approach involved an initial review of publicly available information.
- 3.64 Through consultation with LDA officers, we identified categories of expenditure which appeared to merit detailed testing. These included advertising, publicity and expenditure on consultants in general; as part of our review, we ensured that contracts awarded complied with Standing Financial Instructions and delivered the agreed outputs. Our review was conducted through a programme of interviews with LDA officers and analysis of financial information made available to us by the LDA.
- 3.65 The LDA presents its annual financial resource requirements and commitments in a form that combines revenue and capital expenditure. This is the approach adopted in its internal management accounts as well as for external reporting. We have not sought to disaggregate this information and for this reason the following tables are presented on a different basis from those in the GLA section of this report. Budget figures are included for 2008/09.

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<sup>5</sup> Official Journal of the European Union.

<b>Funding</b>	<b>2007/08</b>	<b>2008/09</b>
	<b>£m</b>	<b>£m</b>
Business Enterprise and Regulatory Reform (Core Grant)	389.0	386.8
Swaps	(16.9)	(28.1)
Capital Receipts – Olympic	-	34.5
Capital Receipts – Other	11.8	10.3
Programme Specific Income	25.2	26.5
Borrowing	231.3	103.6
European Social Fund	-	3.0
<b>Total</b>	<b>640.4</b>	<b>536.6</b>

**Table 4: Summary LDA annual financial resource requirements 2007/08 and 2008/09**

- 3.66 The LDA's primary source of funding is from Central Government. The Department for Business Enterprise and Regulatory Reform ("BERR") provides core grant to the LDA and to other Regional Development Agencies (RDAs). As with other Functional Bodies, this grant is initially remitted to the GLA, before being paid over to the LDA. This approach, applying to capital as well as revenue grants, was taken for reasons of convenience and also to ensure that a single body has a clear view of funds received to facilitate straightforward external reporting of funding flows. Legislation requires 'payment forthwith' by GLA, which in practice means that funds are remitted to Functional Bodies no later than the day after they are received.
- 3.67 The LDA is fundamentally different from the RDAs in that its constitution requires it to adopt a local authority structure and financial regime. The other RDAs are Non-Departmental Public Bodies and follow HM Treasury's financial principles and regulatory guidelines.
- 3.68 The LDA's status as a local authority has advantages. For example, since it has commenced borrowing to fund its Olympic expenditure, the LDA has been able to receive unspent allocations from other RDAs (swaps in the above table) that the RDAs would otherwise have to surrender.
- 3.69 The LDA also has greater freedom to borrow, adopting a local authority prudential borrowing regime. This is essential given the scale of capital expenditure required by the LDA to meet its Olympics legacy financial obligations. The LDA had no reason to borrow for capital purposes until assuming responsibility for the Olympics legacy. Now it is able to borrow long term at favourable interest rates (compared to market rates) offered by the Public Works Loan Board (in common with other English and Welsh local authorities).

- 3.70 The LDA is required to make an annual £50 million contribution to the ODA from 2008/09 onwards, with an additional contribution of £100 million per annum for a further three years commencing in 2010/11. The majority of this commitment will be funded through grant and capital receipts, with phasing over a twenty year period enabled by borrowing. Repayments of loan principal are not scheduled to commence until 2013/14 and the LDA is incurring an average annual interest charge in the region of £30 million in the pre-Olympics years.
- 3.71 At present the annual £50 million is paid to the ODA quarterly in advance. The LDA is considering proposing a shift to an arrears-based payment method, but this has yet to be negotiated. We note that there is no signed memorandum of understanding between the two parties. Given the unique situation of the Olympics and the magnitude of public money involved, we recommend that an agreement is reached between LDA and ODA, underpinned by a legally-binding document, as a matter of priority.

### Summary of LDA funding outflow

- 3.72 The table below sets out the LDA's actual expenditure in 2007/08. The greater part of its costs is project-based and all projects are subject to scrutiny by the LDA's gateway process. This should help ensure that best use is made of financial resources, as well as enabling the LDA to prioritise and to select schemes that allow it to meet its internal objectives, as well as those established by the Mayor. Our review of the way in which LDA grants have been awarded and the resulting outputs monitored is described in Section 4 of this report.

Expenditure Category	2007/08 £m
Olympic & Paralympic Games	99
Pan London Infrastructure	47
Business Engagement & Skills	218
Other Projects	3
Marketing London	4
<b>Sub-total</b>	371
Corporate Support (Non-programme costs)	29
<b>Total</b>	400

Table 5: Summary LDA expenditure 2007/08

- 3.73 Although the majority of the LDA's expenditure relates to core areas such as project funding, significant amounts (£29 million above) are spent on the LDA's non-programme activities - these include the costs of running the corporate core and premises-related expenditure. The following table represents a broad analysis of LDA's non-programme costs based upon a summary spreadsheet of 2007/08 actual costs that we received from LDA.

<b>Category</b>	<b>£m</b>
Salaries	16.9
Staff training	0.7
Expenses and disbursements	1.6
Office expenses and ICT	3.2
Fees and subscriptions	0.5
Tax and interest	0.4
Premises-related costs	1.1
Advertising and Marketing	1.3
Consultants and legal fees	2.7
Other	0.8
<b>Total</b>	<b>29.2</b>

Table 6: Summary LDA non-programme expenditure 2007/08

- 3.74 The largest single item in the "other" category is RDA joint work of £0.6 million, with the remainder comprising online database, archiving and data acquisition costs. The tax and interest category (£0.4 million) consists principally of unrecoverable VAT.
- 3.75 LDA officers have advised that non-programme costs will increase from 2008/09 because staff costs across all programmes will be categorised within support costs. This should facilitate greater accuracy in project planning, through increased transparency of project costs. The long term trend is for a decrease in core costs, with the LDA targeting reduction in programme support costs by 25% over the next three years. It is likely that this will be achieved by re-structuring the LDA as part of a wider Improvement Programme.

	<b>Expenditure (£m)</b>				
	<b>07/08</b>	<b>08/09</b>	<b>09/10</b>	<b>10/11</b>	<b>11/12</b>
Policy & Programme Support (P&PS)	27	46	42	40	40

Table 7: Anticipated long term trend in LDA Support Costs

### **Focused review of other discretionary spend areas**

- 3.76 We have selected some of the 2007/08 non-programme costs for detailed testing. These reflect the LDA's exposure to categories of costs that we reviewed as part of our review of GLA's finances.



### Publicity and Advertising

- 3.77 The LDA incurred expenditure on publicity, advertising and other promotional activities of £2.7 million in 2007/08, of which staff costs were £1.63 million, accounting for more than 50% of the budget. An estimated 31 full time equivalent staff are engaged in the delivery of advertising and marketing services. These staff are based in the Chief Executive's unit as well as the press office and stakeholder relations. Because the nature of the LDA's business necessitates a high commitment to consultation, some external and internal publicity direct costs are unavoidable.

### External consultants and agency staff

- 3.78 The LDA spent just under £2 million on external consultants within its non-programme costs in 2007/08. This is included in the £2.7 million consultants and legal fees in Table 6 showing the LDA's non programme costs; the balance relates to legal and forensic investigation fees. The £2 million figure excludes any consultancy spend incurred as part of the LDA's programme-related expenditure.
- 3.79 We reviewed a sample of relatively small contracts in order to gain an understanding of the range of services provided by consultants. In each case we considered whether the contract complied with the LDA's Standing Financial Instructions, such as the requirements for competitive tendering as well as ensuring that the LDA had received a defined output or deliverable in accordance with the letter of engagement.
- 3.80 The LDA's Standing Financial Instructions are relatively onerous in that its procurement code advises against single tender action, regardless of contract value. "Compete For" is a web-enabled procurement tool whose use from September 2008 will be mandatory for all LDA non-panel procurement.
- 3.81 In the course of our testing we discovered that the LDA's procurement team was comprised almost wholly of interim managers in the latter part of 2006/07 and that procurement protocols were less robust than the current position. Indeed, it appears that one of the temporary staff involved in the drafting of procurement procedures was himself appointed without any competitive quotes being received. Our testing of six specific contracts revealed three being awarded without competition, which would be incompatible with the LDA's current arrangements.

## **Areas where the LDA may be involved in services already covered by other entities**

- 3.82 We have already identified areas where there may be some overlap in the roles performed by GLA officers, and those performed by other Functional Bodies. Where there was potential for overlap between GLA and LDA functions, we discussed these areas with LDA officers to gain an understanding of the nature of services performed. We set out the relevant criteria below and indicate where there may be potential to realise savings in the LDA through an alternative approach to service provision.

### The Olympics and Paralympic Games 2012

- 3.83 This is a strategic project of fundamental importance to London and consequently, there are a number of bodies involved in preparation for the Olympic and Paralympic Games 2012. We have clarified with LDA officers that the Agency's role is to ensure that the five London boroughs directly affected by the Olympics benefit from their legacy, together with related environmental regeneration. This is to be achieved through housing programmes, landscaping of parks and green spaces as well as the socio-economic legacy of job creation and training.
- 3.84 Overall control is exerted by the Olympics Board. The LDA's total projected expenditure is £1.6 billion. Within this amount, £550 million has been directed to the ODA to contribute to site construction costs and the remaining balance has been earmarked predominantly for land acquisition and remediation. Approximately 100 LDA staff are to be involved in managing the Olympic legacy.
- 3.85 At this stage we are not aware of any duplication or overlap with the GLA or any other body's functions. Nevertheless roles and responsibilities need to be kept under review to ensure that inevitable changes to terms of reference create neither conflict nor duplications with the roles of other bodies.

### Overseas offices

- 3.86 As discussed in paragraph 3.25 above, the GLA has overall responsibility for the Brussels office. The LDA does however benefit from a small amount of European funding and contributes £50,000 per annum to cover the running costs of the Brussels office. In return, information is received from the Brussels team detailing recent policies and directives. LDA officers were aware of the review currently being undertaken by the Deputy Mayor and commented that there may be scope to run that office with fewer people.

- 3.87 The GLA Family also has offices in India, China and Russia. There are very few posts in these offices, although LDA does have a presence. These three growth economies have been targeted by London in order to exploit their expansion. A local presence is considered by the LDA to be important in order to strengthen links and to position London as a readily available market for their businesses. Think London and Visit London are both particularly strongly engaged in promoting the capital. We believe there is scope for rationalising these efforts.

### Economic Development

- 3.88 It is a requirement for the Mayor to have an economic strategy and the LDA is commissioned by him to advise on policy and strategy issues. However, the Mayor also has policy and strategic resources within the GLA, resulting in the potential for overlap. The LDA's role is predominantly in relation to the promotion of schemes, whereas the GLA tends to have a purely advisory role. There are currently 30 LDA staff engaged in the provision of advice on economic development.
- 3.89 LDA officers believed that there was inevitably scope for rationalisation in order to drive out duplication and inefficiencies. Both bodies are likely to make staff reductions and to restructure the roles in the near future.

### **Possible other areas where savings can be made without compromising performance**

#### Preparation for shared services

- 3.90 The formation of a single back office providing common services and serving all Functional Bodies should generate significant economies of scale and unlock potential savings. We have set out in this review to establish whether there is any appetite within the LDA for such an initiative.
- 3.91 There have been several initiatives between the LDA and other Functional Bodies seeking joint procurement opportunities. There is a collaborative workstream addressing 'responsible procurement'. For example LDA, like some of the other Functional Bodies, is heavily reliant on temporary and interim staff. A joint procurement solution is accepted as an efficient and effective strategy, in that it should reduce costs and ensure greater consistency in standards.
- 3.92 The debate on a common solution to IT has been progressed through the Convergence Agenda. For example, plans to set up a data centre jointly with TfL have been approved and a quick win has been achieved in the area of licensing. LDA often joins up with TfL in joint initiatives of this nature, recognising that LDA is significantly smaller than TfL and benefits from increased scale.

- 3.93 There have been discussions within the GLA Family regarding joint IT solutions. LDA is always keen to scope these, although in the past has found that internal pricing strategies to recover IT investment by some Functional Bodies can be more of a hurdle to overcome than IT hardware not being compatible across the GLA Family.
- 3.94 Whilst there are some initiatives of joint procurement across the GLA Family, this group will not always be the right vehicle for pursuing partnership initiatives of this nature. For example, the LDA might consider itself to be more closely aligned with other RDAs for some procurement opportunities and TfL might be better oriented towards private sector joint working.

### **Financial monitoring and control exerted by GLA**

- 3.95 The LDA is required to prepare a quarterly return to the London Assembly and the Mayor setting out financial performance against budget. In turn, there are presentations by LDA officers to the Budget Sub-Committee on financial strategy and including explanations of factors underlying any poor performance. There are also regular finance directors' meetings and reviews across the GLA Family on joint commitments, such as borrowing requirements.
- 3.96 Financial intervention by the GLA is perceived by the LDA to be 'light touch'. In a sense this is regarded as understandable as the LDA does have its own Board (which may but is not required to include a GLA representative) and governance structures underpinning it. There are very few examples of direct intervention by GLA finance staff into every day LDA financial affairs. When enquiries are received, these tend to be prompted by questions to the Mayor rather than by any desire to develop a greater understanding of LDA's financial performance and commitments.
- 3.97 Financial enquiries received from the GLA were said by the LDA to be similar in nature and complexity to those received from BERR, which also adopts a relatively light touch. BERR requires the completion of workbooks and information on financial forecasts commensurate with its reporting requirements to HM Treasury. Other than the requirement to produce the high level quarterly budget return, the extent to which GLA officers have an in-depth knowledge of LDA financial performance at programme level is questionable.
- 3.98 The GLA does have an oversight role regarding the LDA which the Panel concludes it has not performed effectively in the past (see Section 5, Governance, paragraphs 5.14(c) and 5.58). The financial officers of the GLA should have been asking whether value for money was being delivered from an organisation with an annual budget of over £600 million.

## Conclusions and recommendations

- 3.99 Based on our review, we believe that there are potential GLA savings of at least £7.7 million, or approximately 10% – 15% of “head office” spend, through eliminating duplication across the Functional Bodies, outsourcing of certain functions and rationalisation of procedures. This is broadly analysed as follows:

	<b>£m</b>
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
<b>Total</b>	<b>£7.7</b>

**Table 8: Analysis of annual estimated potential GLA savings**

- 3.100 Furthermore, we believe that significant LDA efficiencies could be generated through rationalisation of the LDA's role and responsibilities going forward as described in Section 6 of this report. A “slimmed down” LDA would be responsible for commissioning and managing a small number of strategic programmes.
- 3.101 The ongoing review of the ODA budget is imperative and must be expedited in order to identify existing shortfalls.
- 3.102 Finally, significant efficiencies and cost savings may exist within TfL, the Metropolitan Police Authority and the London Fire and Emergency Planning Authority, through shared services, leveraging the combined purchasing power of the “GLA Family” and further rationalisation of property, people and functions.

## 4 LDA processes for awarding, monitoring and evaluating grants and associated projects

### Introduction

- 4.1 In this section of our report, we describe the work undertaken by the Panel in relation to the LDA's processes for the award of grants. We have grouped our findings under the headings which chronologically form the typical life cycle for a project, namely its development, delivery, monitoring and outputs.
- 4.2 The objective of our work was to consider, at a high level, whether there has been mismanagement or other inappropriate behaviour in relation to:
- (a) the awarding of grants;
  - (b) the detection of conflicts of interest; and
  - (c) the monitoring of grant recipients' performance;
- and to suggest new processes to strengthen probity and value in the work of the LDA.
- 4.3 To undertake our work, we reviewed a sample of projects. This review comprised:
- (a) selection of projects from the Corporate Risk Register<sup>6</sup>;
  - (b) interviews with key managers at the LDA responsible for these projects; and
  - (c) reviews of project files and working papers at the LDA.

We also visited a number of direct and indirect recipients<sup>7</sup> of LDA grants to meet key staff at the relevant organisations and gain their perspective on the LDA's processes.

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<sup>6</sup> The Corporate Risk Register is an LDA quarterly updated document which lists projects at high or enhanced risk and the action plans in place for reducing their risk. The risk register in its current form is a relatively new document, having been developed in the last 18 months. We understand from the LDA that there was previously no document encompassing risks in the same formalised way.

<sup>7</sup> In many cases the LDA contracts directly with the ultimate entity which will be spending the project monies awarded – we refer to this entity as the delivery partner. In some cases the LDA contracts with an intermediate entity such as a London borough, which then itself contracts with the delivery partner. We refer to the intermediate entity as the lead partner.

- 4.4 Given (a) that these projects covered a wide period and (b) that the LDA's processes have changed significantly since its inception in 2000, the issues/shortcomings identified below do not necessarily relate to current procedures. Nevertheless, we believe that the findings demonstrate that there have been failures in the management of public funds from which lessons for the future may still be learned.

## Background on the LDA

- 4.5 As a member of the GLA Group, the LDA is one of the four 'Functional Bodies' accountable to the Mayor alongside the Metropolitan Police Authority, the London Fire and Emergency Planning Authority and Transport for London. As at 31 March 2007, the Board consisted of 15 members drawn from the private and business sectors, local government and the GLA.
- 4.6 It currently funds approximately 600 projects across more than 200 organisations through its grant process. The total budget for 2007/2008 amounted to £742.75 million, although this included £325 million to cover borrowing costs for the acquisition and remediation of land for the 2012 Olympic Games and Paralympic Games. The budget for 2008/2009 stands at £422.5 million.
- 4.7 Technically, the LDA is a separate corporate body within the GLA Family, accountable statutorily to the Mayor but also to Government. According to John Biggs, Vice Chair of the LDA Board,<sup>8</sup> *"It is a body led, in principle, by its Board. .... In reality it is far more closely directed by the Mayor's office. This brings it great strengths, of integration across mayoral strategies and of leadership through local knowledge. ... It does however bring challenges as this is a novel relationship and there is from time to time a tension between the desires and expectations of the Mayor's office and the corporate priorities of the Agency"*. In the same note, Mr Biggs pointed out the need for the clarification of the relationship and reporting lines between LDA and GLA staff, and also with third parties, but we are not aware that the suggested protocol was ever agreed.
- 4.8 The LDA implements projects to develop and/or sustain London, e.g. the Olympics, regeneration sites, housing, developing employment, supporting businesses, developing tourism and working to reduce climate change. It has four "cross-cutting themes" and seeks to approve projects which fall into at least one of these categories: equality, health, sustainability, community safety.
- 4.9 Between 1 April 2007 and 31 March 2008, 108 new projects were approved. Of these, the amounts approved fell within the following tranches:
- (a) 94 were awarded grant funding of up to £3.99 million (requiring Corporate Investment Panel ("CIP") approval only);

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<sup>8</sup> Memo from John Biggs to Mary Reilly and Manny Lewis dated 24 June 2005

- (b) 6 were awarded between £4 million and £5.99 million (requiring CIP and Group Management Team ("GMT") approval);
- (c) 3 were awarded between £6 million and £9.99 million (requiring CIP, GMT and Board approval); and
- (d) 5 were awarded amounts in excess of £10 million (requiring CIP, GMT, Board and Mayoral approval unless "called-in" by the Secretary of State in which case Central Project Review Group review is required).

## **The context of our review**

- 4.10 The LDA's programme management processes and controls have been the subject of a continuous improvement programme since the inception of the agency in 2000. Key elements of this programme included:
- (a) In 2002, the introduction of a new ten stage project approval and monitoring process;
  - (b) In 2004, the introduction of the LDA's Single Programme Guide; and
  - (c) In 2006, the introduction of improved processes and an updated Single Programme Guide.
- 4.11 The nature of the projects that the LDA supports means that much of its business is inherently higher risk than most other organisations in the public and private sector. In recent months there has been increasing recognition of this at the LDA which has striven to put in place all the necessary procedures and controls to ensure the greatest probability of successful outcomes for the funding it provides.
- 4.12 In spite of these efforts, the LDA acknowledges that "its record management has not historically been up to the standards that it now sets itself."<sup>9</sup>
- 4.13 In July 2006, the London Assembly's Economic Development, Culture, Sport and Tourism Committee began a review into LDA grants made to cultural projects in the capital. In June 2007, this committee sought detailed information on six specific cultural projects and subsequently commissioned Deloitte MCS Limited ("Deloitte") in August 2007 to review this information. The committee concluded in November 2007 that:

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<sup>9</sup> Source: LDA Interim Response to the London Assembly's Interim Statement of Concerns dated 17 March 2008.



*“The LDA was unable to demonstrate in some cases what it expected to get in return for its funding, did not adequately monitor the outcomes, and was unable to explain the criteria for some of its spending decisions.*

- *There is a lack of detailed evidence concerning project risks and their impacts.*
- *There is insufficient documentation to explain why the LDA became involved in these projects.”*

4.14 The report also noted that these concerns about the LDA's processes made it impossible to judge why projects were funded and what the LDA got for its money. The report made a series of recommendations designed to enable the LDA to meet appropriate standards.

4.15 Following a review of additional information provide in relation to these projects Deloitte issued its final report<sup>10</sup> in February 2008. Key conclusions were that:

- (a) It was not clear from the evidence provided what the finally agreed anticipated outputs were for the six projects, whether these were being monitored throughout the projects' life spans, and whether the outputs had been realised;
- (b) There was an inconsistent approach to monitoring, evaluation and audit across the project files;
- (c) Project files did not evidence consideration of the requirements for and use of specialist, external or statutory advice/approvals; and
- (d) Four of the six projects did not meet expectations for impact assessment.

4.16 Prior to the issue of this final report, the London Evening Standard published towards the end of 2007 a series of articles by Andrew Gilligan, focusing in particular on the role of one of the Mayor's advisers in respect of certain projects (Lee Jasper, Director of Policing and Equalities) and alleging impropriety at the LDA.

4.17 Accordingly, the Group Director, Resources and Risk supported by Deloitte undertook a review of the projects mentioned. In several cases, the review concluded that there had been weaknesses in LDA project management and record keeping.

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<sup>10</sup> [http://www.london.gov.uk/assembly/scrutiny/lda\\_grants.jsp](http://www.london.gov.uk/assembly/scrutiny/lda_grants.jsp)

- 4.18 At around the same time, the Metropolitan Police Authority initiated investigations into six organisations which had received funding from the LDA. Four of these enquiries, all of which have been fully supported by the LDA, are still ongoing. A number of arrests have been made.
- 4.19 As a result of these developments, an independent wider review of past projects was commissioned by the LDA from the law firm DLA Piper, supported by KPMG. Over 50 projects were selected for review covering the LDA's entire lifespan (2000 – 2008). This very thorough and in depth review is addressing the entire project lifecycle processes in place at the time of each project, including approval and use of funding, output delivery and governance issues. This work is unlikely to be completed before the autumn of 2008.
- 4.20 Additionally, the London Assembly held three meetings to investigate these issues and subsequently issued an Interim Statement of Concerns<sup>11</sup>. Inter alia, this statement concluded that:
- (a) The LDA appeared to have been reacting to allegations rather than taking proactive steps to ensure that its grants were properly awarded and spent;
  - (b) Due diligence exercises had been inadequate and on occasion non-existent;
  - (c) Record keeping had been inadequate;
- and required the LDA to provide a report to the new Assembly in May 2008 setting out what changes it planned to make *"in order that public trust and confidence may be restored."*
- 4.21 The interim response dated 8 May 2008 described the improvement programme which was currently being rolled out across the LDA, and the steps taken to address the Assembly's concerns. These included:
- (a) the creation of a specialist unit within its finance department to assess and monitor the financial standing and controls of organisations both prior to the award and throughout the lifetime of funding by the LDA;
  - (b) conducting an internal review of its document management processes; and
  - (c) appointing PricewaterhouseCoopers ("PwC") to supplement its existing internal audit arrangements and provide additional independent external scrutiny of its project management and grant funding processes on an ongoing basis.

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<sup>11</sup> Interim Statement of Concerns from the London Assembly dated 17 March 2008  
<http://www.london.gov.uk/assembly/reports/general/lda-grants.pdf>

## Current LDA project approval processes

- 4.22 The current project approval processes were introduced in April 2004, following a review of the Single Programme Appraisal Guidance ("SPAG"), which is itself in compliance with higher-level Government guidance, including the Treasury's 'Green Book'.
- 4.23 Proposals to invest in new projects are developed by staff within the LDA. Whilst the approval of all new projects follow standardised processes, the role that the LDA takes in these projects can vary. In some cases the LDA takes the lead, engaging and leveraging funds from a variety of other stakeholders, including the GLA Group, the DCLG<sup>12</sup>, local authorities, the private sector and others. For other projects, the LDA forms part of a wider partnership, perhaps providing only a relatively small proportion of the project funding. In all cases, however, there is a need for the proposed project to contribute to the LDA's objectives, as set out in the Economic Development Strategy, Corporate Plan & Investment Strategy.
- 4.24 The LDA does not normally accept applications for funding from third parties, unless as part of a competitive bidding process, such as the Opportunities Fund<sup>13</sup> programme.
- 4.25 New project submissions are prepared by project managers using a 'Project Development Workbook'. The Workbooks have two stages:
- (a) the first is the Strategic Case, which includes an overview of the project, its strategic 'fit' with LDA objectives, explains the need for the project, details its activities and objectives and any displacement or duplication of existing activities; and
  - (b) the second is the Business Case, which includes more detail, examines the 'value for money' aspect of the project, its proposed and potential impact and also contains a detailed assessment of risks.
- 4.26 The approval process guideline requires departmental sign-off of the Workbook which is then submitted to the Quality Solutions team for independent appraisal. Following this appraisal, if successful, it is submitted to the CIP for the overall investment decision.

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<sup>12</sup> Department of Communities and Local Government

<sup>13</sup> The Opportunities Fund provides grants to support a range of community-based projects across London.

4.27 The CIP is a key decision making body within the LDA. Its purpose is to ensure that decisions to fund new projects are taken in a rigorous, consistent, open and transparent manner. The CIP is made up of LDA directors, and is chaired by the Group Director – Resources & Risk, supported by specialists in finance, equalities, risk, procurement and law. Specifically, the role of the CIP (which usually meets fortnightly) is to:

- (a) Reach a consensus view on whether a project proposal should be funded, having particular regard to the following key criteria:
  - (i) The project is consistent with the LDA's powers and its strategic priorities, as articulated within the Economic Development Strategy, Corporate Plan, Investment Strategy and Investment Frameworks;
  - (ii) The project represents value for money, which is evidenced within the submission - for example, the unit costs are within acceptable limits, or costs compare favourably to other similar projects;
  - (iii) The level of risk exposure is acceptable, given the nature of the project;
  - (iv) The project impacts positively upon the LDA's cross-cutting themes of equalities, health, sustainability and community safety;
  - (v) The various delivery options have been identified, robustly analysed and the most appropriate option selected; and
  - (vi) A robust exit strategy has been developed for the project.
- (b) Add value to the design and subsequent success of the project by:
  - (i) Contributing any particular relevant experience or skills;
  - (ii) Advising on practical issues, such as the deliverability of proposals; and
  - (iii) Ensuring that appropriate linkages are made with other projects and programmes of the LDA.
- (c) Have regard to any issues arising from the economic area appraisal of the project;
- (d) Seek further explanation or clarification before reaching a decision; and
- (e) Apply conditions to project approvals and provide information/advice for project development and delivery staff.

- 4.28 The CIP either approves, rejects or defers the project, although according to the LDA, approval is the most likely outcome. The following table shows an analysis of decisions<sup>14</sup> taken by the CIP in the past three years: approximately 9% of decisions were deferred and only 1% rejected. According to the LDA, these rates reflect the detailed scrutiny that the application will have undergone before reaching the CIP.

	<b>2005/06</b>	<b>2006/07</b>	<b>2007/08</b>	<b>Total</b>	<b>%</b>
Approved, without conditions	119	112	143	374	63.5%
Approved, with conditions	46	33	74	153	26.0%
Deferred	22	12	21	55	9.3%
Rejected	2	2	3	7	1.2%
<b>Total</b>	<b>189</b>	<b>159</b>	<b>241</b>	<b>589</b>	<b>100.0%</b>

Table 9: Analysis of CIP decisions 2005/06 to 2007/08

- 4.29 If the business case is approved, budgetary approval is then obtained. Here the approval levels are:
- For projects requiring a grant of above £6 million, Board approval is required;
  - Above £10 million, Mayoral approval is required; and
  - Above £50 million, Treasury approval is required.

For change control requests (e.g. lifetime increases, changing in funding profiles between years, changes to project specification/design), CIP approval is required.

- 4.30 A new version of the Workbook is currently being developed by the new executive team and is expected to go live in the summer of 2008. It complies with the new version of SPAG called "GRADE" (Guidance for RDAs in Appraisal, Delivery and Evaluation), which has been operational since April 2008. The new version will include a Project Logic Chain, a Strategic Added Value Logic Chain and more in-depth analysis of unit cost data, benchmarking and whole life project costing.
- 4.31 The Panel has not sought to review the effectiveness of the processes and internal controls currently in operation as this work is the subject of a separate independent review currently being undertaken.

<sup>14</sup> All projects require positive decisions in respect of the strategic case and usually the business case (although this may be waived in rare circumstances); additional decisions may be required in relation, for example, to feasibility studies, research cases or change controls.

## Basis of approach

- 4.32 Having interviewed executives and former LDA Board members at length about grant-giving processes, we then looked more deeply at specific projects. To assess the LDA's processes at different stages of the project life cycle, we selected eight projects which had been added to the Corporate Risk Register due to various problems and non-delivery. The number of projects examined in-depth was limited in the interests of avoiding duplication<sup>15</sup> and ensuring that a sufficiently detailed review could be achieved within the sixty day timeframe set by the Mayor.
- 4.33 We met the Project Managers for the selected projects at the LDA, discussing with them both the standard processes involved in the key stages of a project (being project development, project delivery, monitoring and output evaluation) and the specific processes that were employed when problems occurred on their projects. We also reviewed the information contained within the project files, which typically included documents from the approval process, contracts, correspondence with the lead or delivery partner(s), quarterly statements of grant expenditure, project progress reports and monitoring forms.
- 4.34 In order to add depth to our understanding of the processes involved, we selected one major project, the White City Area Programme ("WCAP") and visited the lead partner: London Borough of Hammersmith and Fulham ("LBHF"). We met both the Performance & Partnership Project Manager and the Head of Regeneration at LBHF and also reviewed the WCAP project files. WCAP encompasses thirteen separate projects, focussed on reducing worklessness in the Borough, and we selected five of these in order to visit the delivery partners and thus evaluate the processes at every stage and from all perspectives.
- 4.35 We also visited two organisations funded directly by the LDA:
- (a) Hammersmith and Fulham Refugee Forum – a small umbrella body for LBHF-based refugee community organisations (which has so far received approximately £0.4 million of LDA funding); and
  - (b) Rich Mix – a very large multi-cultural project located in London's East End (which has so far received approximately £9.5 million of LDA funding and approximately £14 million of additional funding from other public bodies).

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<sup>15</sup> A number of other reviews have taken place or are ongoing, as described herein.

## Findings

### Project development

- 4.36 We define project development as the preliminary stage of the project, from conception through the assessment and approval process and budget creation until the point when a contract is issued.

### Influence of Mayoral advisers

- 4.37 Under the Greater London Authority Act 1999, the Mayor has the power to appoint two political advisers and not more than ten other members of staff. All twelve staff are employees of the GLA and their appointment may not extend beyond the Mayor's term of office. Lee Jasper, the Director of Policing and Equalities, was one of the two political adviser appointments.
- 4.38 Mayoral advisers (which are now referred to as Policy Directors) are subject to the same scheme of delegation, standing orders and financial regulations as all other GLA employees, meaning that the Mayor is able to delegate the exercise of his functions to one of these appointees. However, the LDA's scheme of delegation, standing orders and financial regulations give no powers to Mayoral advisers to make decisions in respect of LDA operational matters.
- 4.39 It has been widely acknowledged that the role of Mayoral advisers in the awarding of grants and commissioning of projects requires far greater transparency. We have been told that undue pressures were brought to bear on LDA project managers to award certain grants and/or commission certain projects. For example, we understand that Anthony Mayer and Manny Lewis both told the Assembly that they believed Lee Jasper had acted in two different capacities when he intervened in relation to the LDA's grants to Brixton Base, both as a patron of that organisation and as a Mayoral adviser.
- 4.40 We noted several other instances where Mayoral advisers appeared to have become involved in the development of projects subsequently granted funding by the LDA. For example:
- (a) Minutes from a special CIP meeting considering the Opportunities Fund 2<sup>16</sup> (both selected projects and as a whole) specifically refer to "extensive conversations" with a Mayoral adviser during which *"[it was] reiterated that he supports the selected projects..."*
  - (b) In the case of a different project requiring increased funding, the LDA meeting minutes record that "[name] advised that [project name] was an important project and one of the Mayoral projects announced in his first 6 months in office."

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<sup>16</sup> Opportunities Fund 2 covers the period April 2007 to March 2010.

(c) In connection with the same project four years later, when the Board considered a fourth and much needed tranche of funding, the minutes noted under 'reputational risk': *"Firstly, and most importantly, there have been a number of promises made by high profile regional and national figures to the local and regional communities about what [project name] can offer to them, including the Mayor and any withdrawal would be likely to lead to serious criticism and the allegation of yet more broken promises."*

4.41 Whilst it is unclear to what extent these interventions played any role in the final approval of the project funding they clearly indicate the involvement of Mayoral advisers in the decision making process in relation to certain projects.

4.42 It would also seem that there may have been ongoing political pressure with certain projects. The following 'Risk Description' of one of our selected projects, taken from the Project Risk Register, indicates that there are political connections between grant recipients and LDA stakeholders: *"Could result in adverse criticism of LDA from ED of [Grantee], who is influential with LDA stakeholders."* This raises the question of whether "influence" was exerted at the grant awarding stage of the project. The 'Risk Controls' section is also pertinent: *"Following pressure from a local MP the LDA facilitated a workshop for [project name], licensees within [premises developed during course of project] and interested stakeholders in the area."*

4.43 Clearly the Mayor needs to ensure that the LDA is delivering on his strategic priorities and he is entitled to delegate such responsibilities to his advisers but clearer guidelines are needed to safeguard independence and ensure an appropriate balance in the governance of arrangements is maintained. As John Biggs, Vice Chair of the LDA Board, commented in his 2005 memo, this sort of intervention *"confuses the lines through which LDA officers are directed and managed"* and *"leaves our Board a little perplexed as to who is actually in charge."* Another LDA Board member commented that the LDA *"had many masters and was a hotch-potch"*.

4.44 There appears to have been a blurring of the distinction between 'strategic priorities', on which the LDA is charged with delivering, and projects which the Mayor would like to proceed. For instance, the board of the LDA was left in no doubt that Mayor Livingstone wanted to see one of the world's largest aquariums built in Docklands. Although voices within the LDA did voice concerns over the economic viability of such a project, they were persuaded to drop their objections and it was eventually included in the plans for Silvertown Quays in the Thames Gateway project. Terry Farrell & Partners, the architects, were commissioned to design the aquarium. Many millions of pounds have now been spent on the project, despite doubts over its economic viability.

4.45 We have not sought to embark on an extended review of the influence exerted by Mayoral advisers given that:



- (a) The role of Lee Jasper, one of the advisers, has received much publicity, partly in connection with an ongoing police investigation;
- (b) The law firm DLA Piper and KPMG forensic accountants are commissioned by the LDA to examine, inter alia, the question of undue influence exerted by Mayoral advisers with respect to a large number of "higher risk" projects. They have also been tasked with considering the question of criminal activity in relation to the projects selected; and
- (c) In the limited time available, the Panel believed that the best use of that time would be to focus on improving transparency, protocols and controls to mitigate the risks of future failings or breaches in this area.

4.46 We reviewed a sample of emails between Mayoral advisers and employees of the LDA which were consistent with the "hands-on" nature of the relationship described above.

### **Due diligence on delivery partners**

4.47 In the course of our work, we noted a number of instances where initial checks on potential delivery partners (particularly where there is an intermediate lead partner) did not appear sufficient. For example:

- (a) In one instance, we found that the delivery partner's core (non-LDA) funding was due to expire before the end of the approved project, raising questions about the organisation's ability to deliver. On the same project, serious allegations occurred against the (now resigned) CEO of the delivery partner organisation relating to, inter alia, inappropriate use of funds and expense claims; and
- (b) Another project was approved even though the proposed delivery partner had underperformed on a previous project and the delivery partner's project manager had recommended no further dealings with them.

4.48 This finding is consistent with the well publicised and documented instance of the LDA awarding £36,900 to the European Federation of Black Women Business Owners in the period 2003 to 2007, in spite of the records filed at Companies House showing that this organisation was dormant for most or all of this period.

4.49 In some instances, we found that insufficient follow-up occurred when concerns were known about at the Strategic Case and Business Case level (i.e. prior to CIP approval). For example we found that typically, new projects with existing partners are identified as 'Low Risk' even when problems have been experienced in the past.

- 4.50 The Panel recognises that the entities and projects which apply to the LDA for funding are likely to be relatively high risk. This does not of course mean that such applications should be rejected, since this would defeat the mission and purpose of the LDA. It does however underline the importance of correctly assessing the risk level at the outset and then applying appropriate controls commensurate with that risk.

### **Approval processes**

- 4.51 Almost all projects reaching the CIP are approved which according to the LDA is attributable to the rigour of the pre-CIP selection process. However, given that the CIP meets fortnightly and approves up to 10 items per session, we were concerned at the inevitably limited level of scrutiny applied by the CIP. For example:
- (a) We identified that large programmes (such as the Opportunities Fund) only undergo one CIP and Board approval, despite the fact that there may be up to eighty projects contained within the programme. Although selected projects are identified as high risk and mentioned specifically during the approval meeting, this will typically be less than 10% of the total number of projects;
  - (b) In another instance, the minutes of the Special CIP Meeting considering the Opportunities Fund 2 as a whole state that 10% of funds (in excess of £1 million) have been held back and that the CIP needs to consider how to use it. The minutes give the impression that the discussion was imprecise and that ideas for this approved "contingency fund" tended to be generic and non-specific, such as "capacity building"; and
  - (c) We also understand that if the CIP approves say, £3 million of funding for "youth related activities", it is not subsequently necessary for individual projects to be approved by the CIP.
- 4.52 Our review included a number of projects funded by bodies other than the LDA. In some cases problems had arisen, for example, in relation to overly onerous reporting requirements to each funding body or a lack of clarity in relation to future funding obligations which, with improved planning at the development stage, could potentially have been avoided.
- 4.53 In the case of one flagship project, it was evident that mistakes were made at the development stage. These included a failure by the LDA:
- (a) to identify overly optimistic revenue projections;
  - (b) to probe the lack of commercial experience in the project's board and management team; and
  - (c) to implement an agreement between funders to facilitate progress.

- 4.54 Once approved, all project contracts relating to a single large programme are on occasions processed through the LDA legal department simultaneously, which has historically led to projects starting late. Naturally, this has a detrimental impact on the delivery partners, creating budgeting problems and delays in outputs.

### **Lack of co-ordination between competing delivery partners**

- 4.55 At least four delivery partners we visited in LBHF share the objective of helping people to achieve employment. However as a result of the LDA's "use it or lose it" approach to funding, these organisations are effectively competing for outputs instead of working together to achieve a common goal.
- 4.56 Furthermore, although a database has now been created which should prevent an individual who has been helped by two organisations within LBHF being claimed as an identical output by both, clients in search of employment cannot be expected to stop their search at the borough boundary. There are no procedures that we are aware of to prevent an output being claimed twice or more by LDA funded projects in different boroughs.
- 4.57 As explained in paragraphs 5.24 to 5.38 below, the Panel believes that the LDA could usefully act as a co-ordinator to identify synergies among delivery partners, eliminate double-counting, share best practice and maximise the benefits for the community. This process might also lead to the conclusion that it would be more effective for the LDA to allocate larger grants to fewer entities.
- 4.58 LDA Board members acknowledge that as at the delivery partners, the cash accounting policies in place at the LDA mean that there is a push to use up "unspent" funding towards the year end. The normal mechanism for this appears to have been land acquisitions rather than specific projects, although we suspect that projects may have benefited also from this desire to use up the budget. There is some anecdotal evidence that the previous Chief Executive congratulated people who spent up to budget in the year, thereby disseminating the idea that this was usual practice. The LDA operates on an accruals basis but is accountable to BERR on a cash basis (through the single programme grant), so there is still some pressure to disburse all funds, as any underspend must be repaid. There is more flexibility now as the LDA can borrow long-term (due to the Olympic legacy) and capital underspend may be offset against the borrowing.

## **Lack of correlation between local developments and funding awards**

- 4.59 A number of the delivery partners we spoke to identified a lack of correlation between local needs and opportunities and the LDA's readiness to fund. For example, in White City £30 million of public sector investment has been made in the last 10 years in a range of business support and other measures. In spite of this significant funding, the delivery partners explained to us that achieving sustained employment has been extremely challenging. Looking forward the situation is likely to improve with the October 2008 opening of the new £1.6 billion Westfield shopping centre creating up to 1000 local jobs. However, some delivery partners will not be able to take advantage of this apparent "low hanging fruit" as LDA funding is to cease and the local JobCentre Plus in Shepherds Bush is scheduled to close.
- 4.60 Another delivery partner told us that they felt "*alternately loved and hated*" by a number of its funders (which included the LDA), depending on the personalities involved and the trends in funding priorities.
- 4.61 Clearly the LDA is interested in achieving maximum benefit for every pound spent, and we would therefore recommend that its funding programme takes greater account of this. In the case of long term projects, it is important that entities being funded have enough medium term financial security to grow and develop without being distracted by day to day financial pressures.

## **Project Delivery**

- 4.62 We define project delivery as the actual performance of the project, including administration and the achievement of outputs through the use of grant income.

## **Reporting requirements**

- 4.63 All organisations we visited expressed concern about the onerous reporting requirements of the LDA, stating that there does not seem to be adequate consideration of the resources, expertise and capacity of small and third-tier firms when contracting with them as delivery partners. The preparation of project progress reports including all of the supporting documentation represents a significant time commitment for a small organisation. It has been indicated to us that many partners feel that the LDA does not offer enough guidance, and even when it does offer training and other assistance to its lead partners, there does not appear to be any consideration as to whether these organisations then adequately brief and communicate with their subcontracted delivery partners. This issue has created problems on certain projects and has been highlighted to the LDA through internal audit reports.

- 4.64 The problem is exacerbated by the fact that delivery partners are usually funded by other funders as well as by the LDA, each of which will have different reporting requirements. This naturally complicates the delivery process and makes it more challenging for the partners, rendering the administration of programmes very time-consuming. Lead partners (such as the LBHF on the WCAP) may also increase documentation requirements in order to satisfy the demands made on them by the LDA; LBHF, for example, requires monthly reporting from its partners in order to collate quarterly reports to the LDA in a timely manner.
- 4.65 In general, we found that grant and contract terms are clearly established with lead partners, but this does not appear to extend to the ultimate delivery partners, even when they have been identified during the development stage. While we appreciate that it is the lead partners' responsibility to ensure that their Service Level Agreements with their other partners are appropriate and to explain adequately the reporting and evidence requirements, it would be beneficial for the LDA to review them and offer assistance or issue guidelines. The consequence of not doing so tends to be that the quality of delivery and evidence of outputs from partners is variable.
- 4.66 Delivery partners commented to us that the LDA is still very process heavy and appears to have a bureaucratic, layered system for change approval; this causes execution problems and delays for delivery partners who have requested, for example, output changes or budget rollovers.

### **Dealing with potential problems**

- 4.67 We understand that it is extremely rare for a contract to be terminated, even when there has been a complete delivery failure. We were told that there has historically been a culture of "throwing money" at a project to rectify mistakes and avoid political embarrassment, and the approval of further funding often occurs without sufficient investigation and follow-up of concerns. For example, on one of our selected projects there were three instances of further funding in addition to the original funding approval notwithstanding the fact that at each stage concerns were expressed by the Board or independent evaluators. Some minutes stated that the information requested had not been received, but in spite of this reported that the funding had been approved.

### **LDA Documentation**

- 4.68 The quality of the documentation we reviewed was inconsistent. Sometimes there would be a lack of sign-off by all relevant authorising parties, insufficient depth and detail in response to open questions, inconsistent risk assessments (e.g. a project being categorised as 'low risk' on one document and 'medium risk' on another) or even documents such as the project specification missing entirely. It appears that there have been insufficient guidelines issued as to how to complete necessary documentation and a lack of review and follow-up when documentation has been poorly produced or is incomplete.

- 4.69 This and other shortcomings identified above may have been the result of a shortage of LDA managers with good project delivery skills (as opposed to the different skills required to develop projects). This was a problem identified by LDA Board member John Biggs in his memo dated June 2005 to the Chairman and Chief Executive of the LDA who queried if the LDA “(still) [had] too many policy people or ... too many people who are not adding to the efficiency in the delivery of the organisation”. He cited the example of the Centre for Engineering and Manufacturing Excellence, a project funded by the LDA, which he identified as having “evolved during its life from a construction project to a struggling business,” querying whether the LDA had been able to provide appropriately skilled support at the right times. In his view, the LDA had become “a little bunkered” and risked “failing to spot quickly enough the changing needs of a project or problem.” As a solution he suggested a “project team approach” in which different skills were brought to bear at different stages of a project’s life cycle. This valid recommendation appears to have been only partially realised in the last eighteen months.

## **Project Monitoring**

- 4.70 We define project monitoring as the ongoing assessment and review of the delivery of the project, benchmarking expenditure and outputs against budget as well as evaluating project management.

### **Timing, frequency and depth of monitoring**

- 4.71 From our review of the projects, it seems that in certain instances insufficient auditing and evaluation has taken place, or that it has not occurred in a timely manner. For example:
- (a) We have found several instances where large errors were not picked up until it was too late, indicating a lack of timely review. For example, a payment of 30% of a *total* grant was made upfront instead of the agreed 30% of the *first-year* grant; and
  - (b) All projects that form part of Opportunities Fund 2 (running from April 2007) are required to be audited at least once during their lifetime. One of the projects we selected has not yet received its monitoring visit, despite the fact that significant problems have occurred. Whilst no contract terms have technically been violated, a more timely review might have helped to highlight the issues.

- 4.72 Although there were historically no minimum limits for frequency of monitoring visits, a six-month threshold has now been imposed. However, this still may not be adequate in some cases. In our review of files at the LDA, we noted that not all action points appeared to have been followed-up, either by the entity being audited or by the LDA, and there was a lack of guidance as to how to complete monitoring visit forms; the depth and quality of the forms and reports we saw varied significantly. In addition, it is not always clear who ultimately takes responsibility for ensuring that action points are completed; even though each point may have a designated owner, there does not appear to be a systematic approach to verifying that everything has been addressed.
- 4.73 We understand that the LDA's internal auditors<sup>17</sup>, who currently provide internal audit services to the LDA, have not been asked to visit any projects as part of their work.
- 4.74 In some cases, independent evaluations are performed on certain projects at the request of the LDA, during which the cost effectiveness and project performance are evaluated against target outputs. However, this often does not occur until after the project has already been concluded when it is too late to rectify any shortcomings. For example, we have viewed independent evaluations where only two of the seven stated objectives were "Achieved", which may indicate issues that should have been picked up during the project's lifetime.
- 4.75 On occasions where the LDA contracts with an intermediate lead partner (such as LBHF) which then contracts with a delivery partner, it is not clear that these quasi-subcontracted arrangements are adequately overseen. Often there are no formal work plans of the project specific timeframes and milestones which mirror the lead partner's requirements to the LDA. We also found examples of insufficient communication of the documentation and evidence requirements of the LDA. Although the monitoring of the delivery partner is the contractual responsibility of the lead partner, and not of the LDA, the lead partners are often small or inexperienced and are not always able to maintain this kind of oversight. Greater monitoring may be required to ensure that overall project objectives and outputs are achieved, especially since the delivery partners often have boards which work on a voluntary basis and have limited time for project management.
- 4.76 We reviewed one case in which the delivery partner had fundamentally misunderstood the contractual requirements of the grant and was mistakenly training and claiming as outputs individuals who already had Level 2 qualifications. This was unfortunately not identified until the lead partner's third audit visit.

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<sup>17</sup> Deloitte & Touche Public Sector Internal Audit Limited.

- 4.77 In our review of projects, we found a lack of clarity in relation to the monitoring of the 'softer' non-financial aspects of the contractual requirements, for example milestones such as marketing campaigns and press releases, the obtaining of indemnity insurance, etc. We have seen no evidence of the verification of these non-financial and non-output-based contract terms or any monitoring of progress.
- 4.78 In our discussions with the delivery partners for projects managed by LBHF there was a clear feeling that there was not enough comeback on non-delivering partners and that there was little differentiation in attention paid to high- and low-performing partners. Both seemed, in the eyes of the delivery partners we visited, to be subject to the same basic level of administration and monitoring, and lack of performance was not viewed as having serious repercussions in many cases.
- 4.79 One LDA Board member told us that previously, "all the Board felt that the monitoring of projects was not up to scratch".

## **Financial**

- 4.80 The financial position, and indeed the continued solvency of delivery partners does not appear to have been monitored on any ongoing basis. When financial audits are performed, they have focused entirely on the grant-funded project, i.e. appropriate cost-apportionment, evidence for expenditure, etc. There has been no verification that the organisation as a whole is financially sound. On one of our selected projects, the lead partner went into administration part way through the project (in February 2008); our review of the project file indicated that financial statements only for 2004 had been supplied to the LDA, and that there had not been any adequate financial assessment undertaken. We acknowledge that the LDA has recently taken steps designed to address this issue.
- 4.81 Historically, there has been an over-emphasis on spending up to budget. Partners have mentioned that they were more likely to be berated for an underspend than an overspend, even if they were able to produce the desired level of outputs in a more cost-effective manner than anticipated. One senior LDA executive described the LDA as having been "*obsessed with under-spend*" and with "*money going out of the door being seen as a measure of success.*" Partners cannot see the rationale behind not being allowed to roll forward their budget underspends into the following year if targets have been achieved.



- 4.82 As noted above, termination of contract is very rare. The standard contract states not only that termination may occur, but also that grant repayment may be required if an event occurs which is likely to affect the grantee's ability to deliver the project according to the established timetable, or which is likely to result in a risk that the project will not be completed. However, even when monitoring identifies such situations or underperformance, repayments are unlikely to be enforced. We understand from the LDA that the sorts of organisations from whom clawbacks might be requested are often those which have no funds to claw back; it is more common for grant payments to be stopped, an measure which has been taken more frequently in the last eighteen months.

## Outputs

- 4.83 We define outputs as the intended 'achievements' of the project, i.e. the desired end product as a result of the grant expenditure, such as number of jobs created etc.

### Definition of target outputs

- 4.84 Our review indicated that the agreed outputs for projects have not generally been sufficiently thought through and discussed, meaning that their impact is not clearly defined and cannot be properly evaluated. The Panel believes that it is essential to consider their value and particularly the actual impact that they will have in local communities; this should not be a 'tick box' exercise. For example:
- (a) A delivery partner on one of the projects we reviewed claimed that although almost all of the outputs on the particular project were being achieved, the impact on local people and businesses was negligible. This problem is exacerbated by the fact that some outputs may be somewhat ephemeral and difficult to assess, such as "Total number of people who benefit from community safety initiatives";
  - (b) Some of the comments made in an independent evaluation at a project's conclusion would seem to indicate that there had been no in-depth analysis at the start of the project as to whether target outputs and their impacts were worthwhile, for example: *"Whilst the sustainability and appropriateness of these capital grants may be questioned, the capital funding has been approved as distributed as per the LDA objective"*; and
  - (c) Discussion with the delivery partners for the WCAP has called into question whether project outputs are necessarily focussed on the correct areas in the first instance. The majority of the WCAP relates to business and job creation in LBHF; however, given the high percentage of businesses that fail within their first year of existence and the number of people who achieve work in the short-term but return to benefits in the long-term, sustainability, i.e. making sure that the newly created jobs last, would appear to be a more worthwhile focus.

## **Delivery partner behaviour**

- 4.85 It was indicated to us by a number of delivery partners that they adjust their objectives and desired outputs in order to meeting funding criteria. Competition for funding has increased significantly in recent years and, in order to secure the necessary funding to continue operating, delivery partners are forced to shift the focus of what they are attempting to achieve to 'fit' with current funding trends. Therefore, because the WCAP is committed to reducing worklessness in the Borough, organisations that might prefer to concentrate on sustaining businesses, for example, might find themselves assisting the creation of new businesses instead, many of which then fail.
- 4.86 Every delivery partner we met asserted that they find the evidence requirements to 'prove' outputs onerous and impractical. In their view, there is no practical appreciation at the LDA of the difficulties inherent in, for example, obtaining payslips to prove the thirteen weeks' sustained employment necessary to claim an output. Organisations feel that they waste a lot of time attempting to gather evidence and sometimes they do not meet with success; in fact, several of the partners estimate that their actual outputs are more than 20% higher than they are able to claim.
- 4.87 Of the delivery partner organisations we visited in LBHF, three cited the particular difficulty they face in obtaining a payslip from a client, showing that (s)he has been in continuous employment for thirteen weeks. These organisations had found different ways of overcoming the problem:
- (a) One organisation wasted many hours meeting clients so as to obtain a copy of the relevant payslip;
  - (b) Another organisation had previously paid clients £200 each (or an estimated £7,000 in total) for their assistance in enabling the grant recipient to comply with the requirement; and
  - (c) A third delivery partner asks new clients to authorise their employer (or alternatively JobCentre Plus) being contacted for verification purposes.

The innovative solution practised by the third delivery partner has not been shared with and adopted by the first two, which would have saved time and/or money.

- 4.88 Due to the pressure to retain as much funding as possible, particularly as there are fewer available funding streams than previously, delivery partners must achieve their target outputs by the end of the lifetime of a project. Thus, they 'manage' outputs, i.e. by assigning more outputs to projects coming to the end of their lifetimes and fewer to new projects. This means that projects artificially seem to underperform in earlier years and over-perform later, which is obviously not an accurate reflection of activity. It also means that, even though the organisation might in actual fact be achieving their targets, they risk losing out on a proportion of the grant in the early years, and the LDA's policy now means that budget underspend cannot be rolled over.

## Conclusion

- 4.89 The most consistent themes emerging from our review are as follows:

- Project development: not enough consideration of the capabilities and capacity, financial and otherwise, of the delivery partners and their subcontractors or of outputs and their impact is given during project initiation. This is particularly the case either when there is a pre-existing relationship with the delivery partner, when the project forms part of a large programme or when influence is exerted by senior parties such as Mayoral advisers.
- Project delivery: insufficient guidance has been provided to delivery partners (particularly when there is an intermediate lead partner), meaning that the quality of delivery and especially documentation and evidence can be extremely variable. Greater assistance with project management on the part of the LDA might help to avoid these issues and allow organisations to meet the requirements of the various funders to whom they must deliver. Even when there is non-delivery, the LDA has historically been very unlikely to terminate projects or demand repayment of grants.
- Project monitoring: historically, insufficient monitoring has led to a lack of timely recognition of problems, especially in terms of subcontracted arrangements. Evaluations and audits may have occurred too late in the project to make any practical improvements. In addition, monitoring may have been focussed solely on grant expenditure and good documentation and output evidence, rather than on other contractual milestones or the actual financial and going concern position of the company. Even when monitoring has revealed inadequacies, insufficient action has been taken.

- Outputs: often, it appears that outputs may not be entirely practical or may be focussed on the wrong areas, leading to a questionable impact at local level even if they are achieved. Delivery partners feel that they alter their objectives and activities to 'fit' outputs required by funders and that evidence requirements may be both impractical and onerous. There has been no "Centre of Excellence" or systematic collation and sharing of best practices (or lessons learned from less successful practices) adopted by delivery partners.

4.90 From discussion with members of LDA management, it is clear that they are aware of many of these historic issues. Particularly during 2007/08, steps have been taken to begin to address the identified problems, including far more comprehensive project monitoring measures and the issuance of detailed guidelines to delivery partners, for example regarding clear definitions of outputs and appropriate evidence. A detailed handbook is also being developed for issuance to Project Managers at the LDA and there is a move towards a far more co-ordinated and standardised methodology. There also seems to be a greater level of support offered by the LDA to its delivery partners.

4.91 The delivery partners themselves have certainly noticed the change and they believe that improvements are being made. However, there is a danger that the LDA might be going too far and over-monitoring, creating a burdensome administration requirement for the organisations it deals with, many of which are small and do not have large resource capacity.

## 5 Governance

### Introduction

- 5.1 This section of the report sets out the views of the Panel on the quality of the governance arrangements in place within the GLA at the time of the review.
- 5.2 The focus of attention for this work was a high level review of the GLA and a greater focus on the LDA, including its interface with the GLA. The governance arrangements in other areas of the GLA Group have not been considered.
- 5.3 The objective of work of the Panel in the governance area was to consider, at a high level, whether or not the governance arrangements were "fit for purpose" focusing specifically on the position of the LDA and its interface with the GLA
- 5.4 Our work in this area was carried out through:
- (a) a review of the legislative framework governing the activities of the GLA and LDA;
  - (b) interviews with key executives within the GLA and LDA, current LDA Board members and London Assembly members;
  - (c) reviews of public domain documentation and documentation provided by the GLA and LDA; and
  - (d) consideration of the findings of the review of projects carried out by the Panel (see Section 4) to identify matters relevant to the governance arrangements over the GLA and LDA.
- 5.5 This section provides:
- (a) a definition of governance, that was used in the assessment of whether or not governance arrangements are fit for purpose;
  - (b) details of the Panel's findings in the key governance areas; and
  - (c) recommendations on the actions that the Group should take to address matters identified during the review and to ensure that areas not subject to review are appropriately considered.

## Mayoral Powers

- 5.6 As noted in Section 1, the GLA Act of 2007 supplements and updates the GLA Act of 1999 and grants the Mayor and the Assembly new powers. The powers of the Mayor are extremely extensive and it is vital that careful consideration is given to how best to exercise such powers in a way which is clear and sustainable. It would be impractical for the Mayor to do everything himself but he will need to be satisfied that everything that is being done in his name is within established protocols and a control environment that provides confidence that actions will be undertaken in a way which he himself would have undertaken.

## Definition of Governance

- 5.7 There is widespread and varied use of the term "governance" across the GLA Group. It is used, extensively, to describe what others may refer to as oversight, management, internal control, compliance, review, inspection or audit.
- 5.8 What is essential is that, in a complex environment, where significant levels of public funds are being managed and where many, potentially competing objectives are to be met, that the way in which the GLA Group governs how it operates requires detailed and focused attention.
- 5.9 The GLA defines the objectives of its governance framework as to "ensure that the Authority achieves its overall purpose and outcomes and operates in an ethical, effective and efficient way" and includes within its definition of governance:
- (a) ensuring that the GLA achieves its purpose;
  - (b) clear organisational structures and processes;
  - (c) involving stakeholder groups;
  - (d) defined and acceptable standards of behaviour; and
  - (e) founding principles: openness, integrity, accountability and equality.
- 5.10 In performing the review, the Panel took the widest possible definition of the term governance, drawing upon best practice from both the public and private sectors.
- 5.11 Governance was defined as:
- (a) The **clarity of understanding of the enabling legislation** that sets the framework within which the GLA Group operates;

- (b) The mechanisms and arrangements that set a **clear vision, strategy and priorities** for the organisation and then:
- (i) the means, by which this is developed, translated and communicated to provide direction to the entities within the Group on how to make best use of their resources in pursuit of these objectives and how to maintain this alignment over time;
  - (ii) specifically, within the LDA, how this is translated into and aligned with the programme of work and portfolio of projects.
- (c) The degree to which there is **clarity on the roles and responsibilities** of elected representatives, executive management and those responsible for scrutiny, including:
- (i) how it is ensured that a constructive relationship exists between those holding these roles;
  - (ii) the responsibilities for stakeholder management and external relationships; and
  - (iii) the arrangements to ensure that those in positions of responsibility have the **necessary capability and capacity** to meet their objectives.
- (d) The mechanisms that set and guide the desired **values, behaviours and conduct** of individuals within the Group and within other organisations commissioned to carry out work on behalf of Group members. This includes the **"tone from the top"** set by the behaviours and actions of those in authority.
- (e) The arrangements for **effective decision making**, including:
- (i) the mechanisms by which individuals are empowered to make decisions;
  - (ii) the quality of information they are presented with to support decision making;
  - (iii) the arrangements to ensure that the consequence of decisions are enacted; and
  - (iv) The arrangements to provide transparency and review to ensure **effective scrutiny and risk management** over decision making.
- (f) The quality, level of understanding of, and arrangement to ensure compliance with the **internal controls and local oversight arrangements** over the administration of day to day activity including the arrangements that ensure that:
- (i) performance is managed;

- (ii) desired outcomes are achieved; and
  - (iii) public monies are protected.
- (g) The mechanisms to ensure that delivery is reviewed over time and that the lessons learned are used in a **programme of continual improvement** over all aspects of the Group's operation, including its governance arrangements.

## Historical perspective

- 5.12 From the interviews conducted by the Panel, and the review of formal documents and project files, it is evident that the Governance arrangements in place both within the GLA and the LDA have not been effective in the past.
- 5.13 A number of investigations have looked into these arrangements and, whilst it is not the role of the Panel to seek to recreate the historic position in place at certain points in time, the primary focus being on whether or not the current arrangements are fit for purpose, it is clear that the governance arrangements were not fit for purpose in the early days of the GLA and LDA.
- 5.14 The main areas of concern historically have been the:
- (a) uncertainty over the role, mandate and authority of the Mayor's advisers;
  - (b) role and function of the Assembly and its lack of ability to call to account the Mayor and officers within the entities that comprise the GLA Group. There appears to be no ultimate sanction that the Assembly can impose upon the Mayor;
  - (c) role and function of the GLA, especially in respect of its oversight of the LDA, where it would appear that the GLA did not adequately monitor the activities of the GLA Family;
  - (d) role and function of the LDA Board, particularly in the area of programme and project management oversight; and
  - (e) internal controls and local governance arrangements within the LDA that oversee the administration of projects and related funding.
- 5.15 Significant progress has been made in recent years on establishing a more effective and efficient set of management arrangements over the GLA and LDA and the Panel has seen many improved features within the current governance arrangements. That said, there is still more to do and the recommendations later in this section set out the views of the Panel on the areas of current activity that still require attention.



## The role of the GLA

- 5.16 The Greater London Authority Act 1999 established the GLA which comprises of the Mayor and Assembly.
- 5.17 The Mayor may appoint no more than two political advisers and no more than 10 other members of staff. The Assembly, after consultation with the Mayor, may appoint such staff as it considers necessary for the proper discharge of the Authority's responsibilities. For the purpose of this reports, the senior appointees amongst these are referred to as the GLA Executive Team.
- 5.18 The role of the Mayor and the Assembly are set out within the Greater London Authority Act of 1999 and their powers were amended by the Greater London Authority Act 2007. This legislation provides the Mayor with a mandate to direct the GLA Group in line with his strategic objectives and plans for Greater London. This places considerable unilateral power with the Mayor to direct activities within London, as long as his actions remain within the law..
- 5.19 The Assembly comprises 25 members, all elected by Londoners at the same time as the Mayor. Eleven of these are elected to represent the whole of the Capital and 14 are elected by constituencies made up of two or more London Boroughs.
- 5.20 The role of the Assembly is to scrutinise the activities of the Mayor, and of the entities within the Group on behalf of the people of London. They do this by being empowered to call for information and ask questions of the Mayor, Board members of the LDA and executive management of the entities within the GLA Group. There would appear to be no formal sanction that the Assembly can take if, as a result of this questioning, it remains dissatisfied with the actions of the Mayor, Board or executive teams. It appears that the Assembly relies upon the media taking up the causes it highlights but this may or may not impact on the behaviour of the Mayor.
- 5.21 The role of the Assembly is critical to the operation of effective governance over the Mayor and effective oversight of the activities of the GLA Executive Team. It is essential that the Assembly focuses on the strategic agenda for London.
- 5.22 We have reviewed the activities of the Assembly and much of its focus appears to have been on specific projects or the activities of specific individuals.
- 5.23 The Panel recommends that:
- (a) a fundamental review be undertaken of the role and activities of the Assembly to ensure that it is configured to retain a strategic focus.

- (b) a thorough review be undertaken of the activities of entities within the group to establish areas where efficiencies could be secured through greater levels of collaboration and cooperation.

## **The role of the LDA**

- 5.24 The eight English Regional Development Agencies (RDAs) were established under the Regional Development Agencies Act 1998, and were formally launched in eight English regions on 1 April 1999. The ninth, in London, was established in July 2000 following the establishment of the GLA. Responsibility for sponsorship of the RDAs moved from the former Department for the Environment, Transport & the Regions to the DTI in 2001, and then to BERR on its creation in Summer 2007.
- 5.25 Their primary role is as strategic drivers of regional economic development. The RDAs co-ordinate regional economic development and regeneration, enable the regions to improve their relative competitiveness and reduce the imbalance that exists within and between regions.
- 5.26 Under the Regional Development Agencies Act 1998, each RDA has five statutory purposes to:
- (a) further economic development and regeneration;
  - (b) promote business efficiency, investment and competitiveness;
  - (c) promote employment;
  - (d) enhance development and application of skills relevant to employment; and
  - (e) contribute to sustainable development.
- 5.27 The RDAs' agenda includes regeneration, taking forward regional competitiveness, taking the lead on inward investment and, working with regional partners, ensuring the development of a skills action plan to ensure that skills training matches the needs of the labour market.
- 5.28 The roles of RDAs are under review at the moment, the general trend being to seek to focus their efforts more on setting the regional strategies and, then, coordinating local entities to deliver on these strategies whilst commissioning major programmes of work from third parties, rather than being extensively involved in the physical delivery of programmes and projects.
- 5.29 The LDA comprises a non-executive Board, appointed by the Mayor, to oversee the activities of the LDA and an executive team who carry out the day to day management of the LDA. The Chief Executive, who leads this executive team, is appointed by the LDA Board.

- 5.30 Whilst the LDA historically has been involved in planning the agenda in the five areas of statutory purpose set out above, it has also taken on a direct role in providing grants (often of relatively low value) and the procurement of many delivery partners that, together, sought to meet the strategic objectives of the LDA. The LDA has also taken on a significant management and oversight role, at a detailed level, over individual projects.
- 5.31 In addition, and unique to London, the GLA and the LDA only form part of the infrastructure that guides and directs the agenda within London.
- 5.32 There are many other parties who play a significant role in the development and management of London including:
- (a) individual London Boroughs;
  - (b) "London Councils" as a collective group and Capital Ambition;
  - (c) the Government Office for London;
  - (d) the City of London;
  - (e) business in the London community;
  - (f) third sector organisations active in the London area;
  - (g) other government functions that operate within London communities, such as NHS London, the Strategic Health Authority for Greater London – who address the Healthcare agenda across Greater London; and
  - (h) other RDAs with an interest in the London agenda, due to economic links with the capital or due to the migration of residents who work within Greater London.
- 5.33 The general view received by the Panel is that the LDA has not consulted sufficiently in the past with these other organisations and that, as a consequence, there have been areas of overlap and, potentially, gaps in provision.
- 5.34 A "direction of travel" has been set by the new executive team at the LDA which seeks to:
- (a) move the LDA away from the detailed management of individual projects into more strategic areas, coordinating programmes of work and commissioning larger, more integrated projects, with more responsibility for collaboration and outcomes placed with those commissioned to deliver on behalf of the LDA;

- (b) establish much greater levels of coordination and collaboration with other London entities to consolidate regeneration funding, eliminate inefficiencies from the need to manage multiple interfaces and deliver better outcomes for the people of London; and
- (c) move the focus of the LDA onto the "pump priming" of activity i.e. injecting relatively small amounts of public monies into schemes so as to stimulate larger investment by the private sector, third sector or viable community groups. This will ensure that LDA funding maximises its value for money, creates sustainable benefit and that the initiatives that are funded do not become dependent upon the continued availability of further LDA funding.

5.35 The Panel recognises and supports this proposed change in emphasis and we feel that, whilst outside our specific brief, there would be significant merit in conducting a more comprehensive review of the management of the interface and collaboration between all of the entities with an interest in the Greater London agenda to ensure that this configuration provides the greatest benefit to the residents of London and provides maximum value for money. The Panel recommends that the Mayor takes a lead role in this.

5.36 Should the LDA migrate to the role of strategic commissioning authority, as is being proposed (see Section 6), then the key areas of attention will need to be the:

- (a) extent to which the LDA has the necessary capacity and capability to interface with, potentially, a wider range of stakeholder and business partners in a strategic capacity;
- (b) extent of capability within the LDA to undertake the strategic commissioning role that may be needed under this new arrangement;
- (c) ability of the LDA to enter into complex commercial and legal arrangements more aligned to the delivery of outcomes than simply the funding of programmes; and
- (d) arrangements that will oversee the migration of current projects to delivery partners, such that the LDA is able to adopt this more strategic role.

## **Overall assessment of the current governance position**

5.37 As set out above, there is considerable debate over the short and medium term role of the GLA and the LDA. However, given the current role and function of the GLA and the LDA, the Panel believes that the governance arrangements in place are in need of attention.

5.38 Based upon the perception of the Panel and, therefore, included purely as an indicative and judgemental assessment, we feel that the current position in each of the critical areas of governance as highlighted above, are as follows:

<b>Topic</b>	<b>GLA Position</b>	<b>LDA Position</b>
Understanding of the enabling legislation	Overall – High Clear on legal position and governance arrangements	Overall – Low Board needs more clarity on role and position
Clear vision, strategy and priorities	Overall – Medium Aware of GLA role and mandate but interaction with LDA less clear	Overall – Low/Medium Good work well underway to realign priorities with strategy
Clarity on roles and responsibilities	Overall – Medium Position between GLA and LDA needs clarifying	Overall – Low Executive mandates require clear definition and role of Board and Board Members unclear
Capability and capacity	Overall – High Appear to have all necessary capabilities in place	Overall – Low/Medium New executive team in place but significant work needed at Board level
Values, behaviours and conduct	Overall – Medium Strong culture and identity with work underway on codification of values	Overall – Medium Moving from a poor compliance culture and organisational conduct to a vastly improved regime
“Tone from the top”	Overall – High Strong leadership with understanding of need to uphold values	Overall – Medium New executive team recognises the need to consistently demonstrate the right behaviours
Effective decision making	Overall – Medium Restricted empowerment framework may frustrate efficient management	Overall – Medium Improvements underway on Management Information and Programme Management Office structures and documentation to support effective decision making
Effective scrutiny and risk management	Internal – Overall High - Formal structures in place and appear effective External – Overall Low – The oversight arrangements over the LDA require attention	Overall – Low Board unclear of role/lack protocols on stakeholder engagement
Internal controls and local oversight arrangements	Overall – High Good, if not over-restrictive controls in place	Overall – Medium Fundamental controls now in place and have a major improvement programme
Programme of continual improvement	Overall – High Governance arrangements under regular formal review	Overall – High Good programme defined that now needs to be driven through

**Table 10: Assessment of GLA and LDA positions regarding different areas of governance**

5.39 The next part of this section contains the detailed findings that lead to these conclusions.

## Detailed findings - Governance within the GLA

- 5.40 The key governance arrangement for the GLA is the role of the Assembly. The Assembly has a formal role to oversee the activities of the Mayor and the GLA and has the right to investigate and make representations on any matters that it wishes to.
- 5.41 The Assembly consists of 25 members who are elected on a proportional voting system, 14 being elected by constituencies comprising two or three boroughs and eleven being elected by the entire electorate. They receive regular reports from the Mayor and from the Internal Audit function of the GLA. The Mayor is required to meet with the Assembly on a regular basis to answer questions.
- 5.42 The governance arrangements within the GLA itself appear to be relatively mature, with formal arrangements in place for the delegation of authority, standing instructions that guide activity and clear roles and responsibilities for officials and appointed representatives. There is a code of ethics, but this has not been reviewed for some time and some executives were unaware of its existence. However, there is a strong understanding of the desired behaviours and ethical position of the GLA and this is regularly reinforced by the GLA Executive Team.
- 5.43 These arrangements have been subject to a number of external reviews, such as the Audit Commission – Use of Resources report 2007, and have been found to be satisfactory. An internal review is currently underway, led by the Chief Executive, and due to report during July 2008.
- 5.44 There is concern that some of the internal controls of the GLA appear to be excessive; for example, the requirement that all items of expenditure over £50,000 have to be approved by the Mayor.
- 5.45 The GLA has not had a direct role in the definition and management of governance arrangements over the LDA and this is an area in which the GLA should take a greater interest. Information is received from the LDA but this is thought to be in too much detail focused on the detailed working of individual projects and is not provided in time to support an effective decision making process.
- 5.46 The GLA sees its desired engagement strategy with the LDA as leader of the “empire” whereas it feels that the LDA believes itself to be a member of the “commonwealth”. The implication is that the LDA may believe that elements of the GLA’s requirements may be optional rather than mandatory. It certainly appears that the LDA has operated relatively independently from the GLA.
- 5.47 There appears to be a strong (if not too strong) set of internal governance arrangements within the GLA and the main danger is that legitimate activity may be frustrated due to the burden on oversight and review.

5.48 It is recommended that:

- (a) the governance arrangements that oversee the activities of the GLA are streamlined, including the delegation of greater authority to executives. The Panel is aware that the current governance arrangements within the GLA are under review by the Chief Executive;
- (b) the code of conduct for the GLA is reviewed and updated and its existence promoted to all staff; and
- (c) the governance and related reporting arrangements for the GLA and LDA be reviewed together to identify common elements that can be harmonised and to ensure that the governance arrangements over the LDA as exercised by the GLA, alongside those exercised by the Assembly, Mayor and Board of the LDA are comprehensive but efficient. In particular, the GLA must take a much more significant role in governing the activities of the LDA.

### **Detailed findings – the LDA Board**

5.49 The Standing Orders of the LDA set out, clearly, the roles and responsibilities of the Board.

5.50 These are primarily around the:

- (a) approval of key documents, that set the strategic objectives for the LDA and guide the delivery of the strategy of the LDA in meeting these objectives;
- (b) appointment of the Chief Executive of the LDA;
- (c) establishment of financial delegations in respect of the approval of expenditure and the identification of specific matters that require to be referred to the Board for consideration and approval; and
- (d) monitoring and reviewing the LDA's performance.

5.51 It is important to note that the LDA Board is not a partly executive board, as would be the case in a corporate environment but is wholly non-executive with its primary function being the oversight of officer activity.

5.52 Membership of the Board is decided upon by the Mayor against pre-defined protocols and with a mix of business professionals and elected Members from London Boroughs.

5.53 It was clear, from the interviews conducted, that there was room for improvement in each area with regard to:

- (a) how the Board met these responsibilities and, specifically, the role of the Board in medium and long term planning; and
- (b) how the Board was engaged in the consideration of potential projects including due diligence process over project initiation, the approval of expenditure and the on-going monitoring of projects.

5.54 The key matters raised were:

- (a) concern that some Board members were unaware of their responsibilities, heightened by the fact that they had received no induction or training on the expectations of them as Board members, on the role of the Board and on the role of other functions involved in the governance arrangements over the LDA;
- (b) positioning the Board correctly, in line with the Standing Orders, to focus on strategic matters and oversight of the activity of the LDA and the management of governance arrangements between the LDA and the GLA, rather than duplicating roles carried out by officers;
- (c) a lack of understanding of the value added by Board interventions in project approval processes, as supported by the finding that no projects put forward by management had ever been declined by the Board;
- (d) concern over an overlap between the mechanisms established by officers to review and challenge potential project investments under delegated authority and the activities of the Board;
- (e) ensuring that the sub-committees of the Board were established sensibly in line with the necessary skills and experience required, to deal with areas of Board responsibility that could be delegated effectively and so that the main Board activities could focus on the priorities of the LDA;
- (f) positioning the Board as the oversight function to ensure that the LDA met its objectives and obligations (i.e. the effective and efficient delivery of its strategic plan) rather than using the Board to challenge Mayoral decision and strategies. The Board was described as "*half political, half Board*" by one Board member;
- (g) a lack of clarity over the way in which Board members were appointed to sub-committees;
- (h) the excessive use of the ability to consider matters privately (i.e. without public scrutiny) where a small confidential issue was used to invoke the privacy option, whereas this matter could have been separated out from the wider debate which could have been held in public;



- (i) the significant volume of information presented to Board members, who found it difficult to extract key information for assessment in the limited time available;
- (j) concern that the Board was always presented with the answer, thus missing the opportunity to utilise the skills and experience of Board members in deciding between options;
- (k) the mechanisms used to escalate projects for consideration to the Board rely purely upon financial thresholds, rather than the wider view of potential risk, in line with the parameters set out within the Standing Orders; and
- (l) the lack of an effective performance review and assessment regime in respect of the Chief Executive of the LDA.

5.55 It should be recognised that many of these matters are known by the newly appointed executive management at the LDA who plan to use the reformation of the new Board as an opportunity to rectify many of these deficiencies.

5.56 In particular, work is planned to ensure an effective induction of the new Board and it is proposed that the Board establish three sub-committees considering:

- (a) investment and procurement – to consider the approval of initial and further project funding;
- (b) risk, audit and performance – to consider the on-going performance of projects and any risks and issues that may arise; and
- (c) human resources and remuneration – to consider the appointment and reward of key executives and staff.

5.57 Many of the statutory tools to establish and operate an effective Board are in place and it would appear that the issues highlighted above mainly relate to how the Board has conducted its business.

5.58 If the operation of the LDA Board is not addressed, there is a risk that there is insufficient or ineffective governance and oversight over the activities of the LDA.

5.59 It is recommended that the:

- (a) purpose and objectives of the Board be clearly set out and clarified for Board members, executive management at the LDA and the benefit of all other stakeholders (Mayor, Assembly and GLA Executive Team);

- (b) opportunity is taken, as part of the induction of the new Board, to ensure that all Board members are clear on the purpose of the Board, of its duties and obligations. In particular, it should be clarified that the Board is there to oversee the delivery of the strategic objectives of the LDA. In addition the Board should be reminded that it should not seek to question Mayoral priorities, except where they may take the LDA into areas that could be deemed ultra vires;
- (c) the proposed sub-committee structure be implemented but after considering the:
- (i) composition or ways of working of the Investment and Procurement sub-committee to ensure that it is able, and has the necessary skills and capacity to consider the:
- wide range of topics covered by the LDA ranging from Olympic matters, through infrastructure investments and onto projects that engage with the local business community or seek to enhance skills within the community; and
  - wide range of potential commercial vehicles that may be proposed on projects, ranging from grant funding, through loans to strategic investments and equity arrangements.
- (ii) ways of working of the Risk, Audit and Performance sub-committee to ensure that it is presented with effective management information on project performance at an appropriate level of summarisation. In addition, it may be worth considering the role of internal audit and the proposed compliance function in reporting to this sub-committee in respect of the project element of their work;
- (d) Board refocus its attention onto the medium term, by including within the terms of reference of the Investment and Procurement sub-committee the task of reviewing the strategic alignment of programmes with the aims and objectives of the LDA and by reviewing, potentially on a cyclical basis, the ability of the projects, collectively within each area of the LDA, to deliver the desired outcomes. The work currently underway to link the themes, objectives, programmes, projects and outcomes within the LDA could provide the basis for this dialogue; and
- (e) Board sets a risk based set of criteria (not just based upon project value) that should determine the level of Board engagement in projects. This could range from no involvement, where the Board was happy to empower officers to administer projects, to extensive involvement in the more complex, larger and riskier projects. This involvement should be considered at project initiation, at key milestones and during post project appraisals. The risk factors could include:

- (i) financial value;
- (ii) potential impact upon the reputation of the LDA;
- (iii) the degree of dependency of other projects upon the project being considered;
- (iv) whether or not the project was speculative in nature;
- (v) the level of risk arising from the due diligence of the organisation to be contracted;
- (vi) the levels of legal risk; and
- (vii) the duration of projects and the financial commitments that underpin them.

## Detailed findings – LDA Remuneration

- 5.60 The LDA Board members, numbering between 15 and 16 people, received remuneration of £263,000 in 2007/08, an average of approximately £17,000 per Board member, which includes any payments relating to sub-committee appointments<sup>18</sup>. The Chair and Vice-Chair received remuneration of £55,000 and £25,500 respectively. No adjustments were made in respect of frequency of attendance at Board meetings.
- 5.61 We identified a small number of cases in which officers or Board members had received large compensation payments or other benefits as a result of loss of office. In one case a Board member received 15 months' remuneration following stepping down, for which little or no benefit was received. In another case, a senior officer continued to be paid for 15 months after relinquishing a substantive role. Although the individual in question was available for ad hoc projects during this period, it does not appear that any value was actually received by the LDA. He was then awarded compensation and a one-off enhanced pension fund contribution £235,000. He was also appointed Chair of an LDA related management company for a fee of £20,000 p.a. If these were contractual entitlements, we would question if the original contracts with the individuals had been negotiated with sufficient rigour. If the payments were ex gratia, it is not clear what value for money was received by the tax payer.
- 5.62 We recommend that a review be undertaken to investigate the procedures for:
- (a) Negotiating Board members' remuneration packages and other contractual arrangements; and

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<sup>18</sup> Source: GLA unaudited 2007/08 draft accounts.

- (b) Terminating Board members' contracts and making compensation payments, particularly in the event of redundancy or other loss of office;

and that a benchmarking exercise be carried out to ensure that Board members' remuneration packages are commensurate with their responsibilities and comparable to those applicable to similar positions elsewhere.

5.63 We identified a small number of cases in which Board members had received large compensation payments or other benefits as a result of loss of office. In one case a Board member received 15 months' remuneration following stepping down, for which little or no benefit was received. In another case, a former Board member continued to be paid for 15 months after relinquishing a substantive role. Although the individual in question was available for ad hoc projects during this period, it does not appear that any value was actually received by the LDA. He was then awarded compensation and a one off enhanced pension fund contribution £235,000. He was also appointed Chair of an LDA related management company for a fee of £20,000 p.a. If these were contractual entitlements, we would question if the original contracts with the individuals had been negotiated with sufficient rigour. If the payments were ex gratia, it is not clear what value for money was received by the tax payer.

5.64 We recommend that a review be undertaken to investigate the procedures for:

- (a) Negotiating Board members' remuneration packages and other contractual arrangements;
- (b) Terminating Board members' contracts and making compensation payments, particularly in the event of redundancy or other loss of office;

and that a benchmarking exercise be carried out to ensure that Board members' remuneration packages are commensurate with their responsibilities and comparable to those applicable to similar positions elsewhere.

### **Detailed findings - Protocols (Mayor, Assembly, GLA, LDA)**

5.65 The operation of all public bodies is impacted by the democratically elected leadership or their nominated representatives. The preferred ways of working of political leaders varies and impacts directly on the executives of the organisations that they work with.

5.66 Best practice is for a political leader's ways of working to be set out in a clearly documented protocol at the start of their administration and then revisit this at intervals to ensure it remains appropriate.

- 5.67 This should set out how the administration will operate and what is expected of the executive. The protocol should contain details of how deviations from the normal protocol should be handled. For example, if a protocol is agreed whereby the Mayor and his advisers will operate at a strategic level but an issue emerges at a detailed operational level that requires intervention, it should be clear how this will be handled.
- 5.68 It might be appropriate for all such interventions to be through the Chief Executive of the LDA who will then go through the normal LDA management procedures to facilitate the intervention. This would avoid the danger of direct intervention by Mayoral Advisers with relatively junior LDA staff who may then perceive themselves to be under pressure to act in a particular way.
- 5.69 If interventions are attempted that do not comply with the established protocol, staff must be empowered to push back and seek advice from their managers without fear of retribution.
- 5.70 It is clear to the Panel that the engagement model between the Mayor, his advisers, other governance functions and the LDA itself has not, historically, been based upon a clear and agreed protocol.
- 5.71 This has led to:
- (a) uncertainties over the mandate of certain groups and individuals to intervene in the affairs of the LDA; and
  - (b) staff at the LDA feeling under pressure to deal with instructions and guidance coming from both their normal management hierarchy and other sources simultaneously.
- 5.72 The Panel recommends that:
- (a) the protocols by which the Mayor, his advisers, the GLA Executive Team, the Assembly and other stakeholders engage with the LDA be debated and agreed at executive level;
  - (b) this agreement should then be codified into a protocol that is communicated to all parties, including all staff at the LDA and the GLA; and
  - (c) effective governance arrangement be introduced to ensure that all engagement and behaviour is carried out in line with the protocol and that staff within the LDA are supported by executive management should activities outside of these arrangements be identified.

## Detailed findings - culture and ethos

- 5.73 The culture of all organisations is heavily influenced by the behaviour, style of communication and ways of working demonstrated by the top level executives. Chief executives and political leaders must set a tone that corresponds to how they want their organisation to function. A culture of risk management and regulatory compliance is unlikely to be found in an organisation where senior staff and politicians breach controls and established protocols for whatever reason.
- 5.74 At the start of a new administration it is important to define the tone and style required of the organisation through the behaviours demonstrated by the senior team. Where a shift of culture and ethos is desired this must be clearly articulated and behaviours must align with this.
- 5.75 It is unlikely that culture and organisational ethos will change over-night but if there are inconsistent messages and behaviours from the top, the desired change is likely to take much longer to embed.
- 5.76 We recommend that the new senior management team from the LDA, along with the new Board once appointed, consider carefully the "tone from the top" that they wish to display to staff, stakeholders and business partners and agree how and when they will make overt demonstrations of this.
- 5.77 In addition, we recommend that these groups agree upon a principle of zero tolerance in respect of any failure to comply with these cultural and behavioural principles.

## Detailed findings - Interaction with other organisations

- 5.78 As noted above, the GLA and the LDA do not operate in isolation and their responsibilities in some respect overlap with those of other organisations. For example both the LDA and the London Boroughs themselves have responsibilities with regard to regeneration and social issues. It is vital, therefore, that the GLA and LDA establish effective working arrangements with other bodies.
- 5.79 Executive management within the LDA believe that more needs to be done to ensure that the LDA correctly positions itself within the agenda around London. Greater collaboration is planned, especially where pooled funding could unlock further benefit for the citizens of, and business community within London.
- 5.80 We recommend that:
- (a) work be undertaken to improve the understanding of the various organisations with an interest in London with a view to establishing:
    - (i) a clear picture of respective roles and responsibilities of each organisation;

- (ii) protocols for engagement with each of the other main organisations; and
  - (iii) opportunities for the LDA to take a commissioning and place shaping role across other organisations.
- (b) the LDA seek opportunities to align its project portfolio with that of other collaborative partners to ensure that duplication of effort is minimised and maximum value is derived from available funding; and
- (c) work is performed with partners to establish performance management arrangements that enable the collective success of the achievement of wider strategies for London to be reviewed.

### **Detailed findings – projects**

- 5.81 It is clear that a lot of work has been performed to improve the management and oversight of projects within the LDA. Comments have been made elsewhere in this section on the overarching programme governance process and the role of the LDA Board in respect of project activity.
- 5.82 The Panel is keen to evidence their support for the “direction of travel” this is taking and would like to signal a number of areas where it understands management attention is being placed but where progress is essential.
- 5.83 We recommend that:
- (a) the focus of the LDA is moved from success being measured in terms of the release of funding to approved schemes to a position where success is measured in terms of the achievement of the strategic objectives of the LDA and the Mayor. More focus is needed on the definition of desired outcomes in terms that can be measured and used to assess progress. Then interim milestones can be set to ensure that monitoring can be performed on an on-going basis;
  - (b) the outcome based measures now to be set in terms of projects are used within the contracting process with delivery organisations, enabling interim milestones to be set and, subject to the correct rights of audit and inspection being defined within commercial arrangements, be used as part of the monitoring regime. In this environment, there may be options to allow delivery organisation to take on more of a risk/reward arrangement, in areas where a level of performance over and above that requested provides a positive incremental outcome to residents of London;

- (c) the project documentation used to support the administration of projects should be reviewed and harmonised wherever possible. The current arrangement, where each project team have their own pro-forma grant applications, should be streamlined;
- (d) the LDA should strengthen its supplier management arrangements, thus pushing suppliers to deliver on their contractual obligations. Need to get tougher with suppliers and insist on delivery;
- (e) a formal and independent post investment appraisal stage is introduced for all projects upon termination to identify lessons learnt and to formally record the benefits from the project. For those projects referred to the LDA Board at the initiation or review stage, there reports should also be presented to the Board; and
- (f) in defining the business case for a project, the sponsor of the project should be required to set out the position after funding from the LDA has taken place to demonstrate that a sustainable environment has been created such that further funding will not be required.

## **Detailed findings – Leadership and management of the LDA**

- 5.84 The LDA is managed, on a day to day basis, by the Chief Executive and an executive team comprising leaders of the three main areas of funding and a leader representing the corporate services that provide “cross cutting” support to the organisation.
- 5.85 A number of those interviewed have commented that, in their opinion, the leadership of this executive team, historically, has lacked profile and that there has, as a consequence, been a lack of clarity over the direction of the LDA leading to it becoming directly influenced by individuals from the Mayor's office and the GLA.
- 5.86 There is concern that the lack of strong leadership has led to the position that the LDA has been seen by some as a charity or a bank, or “*the former Mayor's cheque book*” and has, as a consequence, not exercised the degree of control over the use of public funds that would have been expected.
- 5.87 The general view is that great progress has been made on the establishment and implementation of new ways of working. One interviewee commented that the arrangements were “70% *there*”, whilst they felt that the level of skill in the organisation was “60% *there*”.
- 5.88 The Panel strongly recommends that the Chief Executive of the LDA sets out a clear and authoritative mandate for the LDA and communicates this widely across the LDA. In addition, the Panel recommends that:



- (a) the Chief Executive takes personal responsibility for the action of the LDA and, as a consequence, requires that any external individuals or entities be required to communicate with the LDA through the Chief Executive or through channels that the Chief Executive has put in place; and
- (b) the Chief Executive ensures that he/she and the executive team maintain a high profile within the LDA, adopt an active management style and take regular soundings from key staff members on their understanding of the mission and vision for the LDA.

5.89 Whilst the CIP process provides a backstop, by ensuring that the full executive management team have an opportunity to challenge projects at key gateway reviews, the leaders of some of these cross cutting functions are concerned that there is a lack of clarity over the need for project leaders to consult with them during the formation of project proposals. There is also concern that, in the past, project teams have commissioned support directly from third parties in areas where internal support exists.

5.90 The Panel recommends that:

- (a) formal service level agreements are defined by the internal cross cutting functions within the LDA that set out, for the benefit of project leaders, precisely what services each team provides and the basis upon which that service is provided; and
- (b) the executive team of the LDA formally define when and where internal functions (procurement, legal etc) but be consulted during the project lifecycle and how they evidence their approval.

## **Detailed findings – other comments**

5.91 The activities of the Panel have concentrated on the strategic matters that could impact upon the successful delivery of the strategic objectives of the Mayor and, therefore, the LDA.

5.92 During the work to develop the findings set out in this section of the report of the Panel, a number of other matters have been identified within the LDA that are of a more operational nature. These are noted below, with brief comments on potential corrective actions, although the Panel wishes to make it clear that further investigation may be required into these matters before any formal action is taken.

5.93 The matters identified are:

- (a) there appears to be no formal succession planning in place for key executive and management roles within the LDA;

- (b) a number of those interviewed have commented that they felt that there was a “*blame culture*” within the LDA, with members of the executive team appearing to be looking to deflect responsibility for key decisions and actions (or lack of action). This had led to many staff adopting a very cautious approach to their work and, as a result, not looking to take the appropriate and well thought through risks that the Panel believes form an essential element of effective business management;
- (c) a number of staff interviewed suggested that the historical focus had been on “*getting the cash out of the door*” referring to pressure to be able to demonstrate that grant budgets had been spent, rather than ensuring that public money had been spent wisely. The new executive team within the LDA emphasised their intention, when interviewed, to move the focus from cash spend to a greater focus on benefit realisation through the measurement of outcomes;
- (d) whilst much work has been undertaken to formalise internal best practice, there is confusion over the status of some of this internal material with some in the management team referring to the “single programme guide” as the definitive guidance for project teams whilst others are working to a draft document entitled the BES Delivery Directorate - Project Management Handbook - Training Draft dated 12 May 2008. Whilst there is much to commend both of these documents, the fact that the two exist and appear to address common territory could lead to confusion;
- (e) the improvement programme, which has been established to bring together the full range of improvements to working practices within the LDA is a very positive step. This is a comprehensive programme of work that seeks to address many of the internal management issues highlighted within this report. The Panel supports this programme and suggests that it is given the highest priority by executive management within the LDA. To ensure its success, the Panel recommends that:
- (i) a clear position of the “new target operating model” for the LDA be articulated, once the Mayor and the GLA has considered any modifications to their plans for London and once the Board and executive team of the LDA have considered whether or not these plans alter the role and remit of the LDA. Once this target operating model has been set, the initiatives within the improvement programme should be reviewed to ensure that they are appropriately aligned with this position;
  - (ii) the Chief Executive of the LDA takes on a formal sponsorship role over the improvement programme as its Senior Responsible Officer (SRO);

(iii) a formal "design authority" be established to be custodian of the target operating model and be empowered to ensure that all improvement activity and any significant changes to "business as usual" arrangements are aligned to this model. This should involve the design authority being informed of any areas of business change not within the improvement programme such that they can assess whether or not these impact upon the ability of the programme to deliver on its objectives. Such operational matters would include the:

- re-let of major support contracts;
- replacement of senior team members; and
- introduction of any new methodologies or approaches.

5.94 Most LDA individuals interviewed by the Panel indicated that there had historically been a culture of non-compliance within the LDA, with there being no material consequence from non-compliance with defined procedures. It appears that there was not a lack of procedure or guidance available to staff, simply no effective arrangements to ensure that they were complied with. The introduction of the Project Management Office function to support the CIP has led to a significant enhancement in project approval disciplines but the rigour and commitment to compliance needs to be extended to cover the whole range of activities of the LDA.

5.95 The Panel recommends that:

- (a) a formal compliance function be established within the LDA, as is now in place within many leading corporate entities, to embed mandatory compliance matters within the organisation and monitor the level of compliance;
- (b) the compliance function should have direct access to the Board to report on its findings, whilst, on a day to day basis, be closely aligned with the Chief Executive; and
- (c) the compliance function should be supported by an independent and confidential whistleblower arrangement that allows anyone within the LDA to alert the Board of any matters where they are concerned that internal controls have been compromised or where inappropriate action is taking place.

## 6 Future of the LDA

### Introduction

- 6.1 This section reviews the role of the LDA and its position relative to that of the London Boroughs and other London based entities.
- 6.2 Under the Regional Development Agencies Act 1998, each RDA has five statutory purposes:
- (a) To further economic development and regeneration;
  - (b) To promote business efficiency, investment and competitiveness ;
  - (c) To promote employment;
  - (d) To enhance development and application of skill relevant to employment; and
  - (e) To contribute to sustainable development.
- 6.3 The Act, however, does not define how the RDAs should go about meeting these purposes and leaves that to be determined by the RDA locally within the context of the structure of wider public services delivery.
- 6.4 The process for accessing state regeneration funding in London is unnecessarily complex and funding for most regeneration programmes comes from multiple sources. The result is a plethora of schemes which overlap and sometimes compete with each other. In our view, there needs to be a radical simplification of the regeneration funding architecture. For example, the chart below depicts the public sector support training and employment support landscape in Hackney:

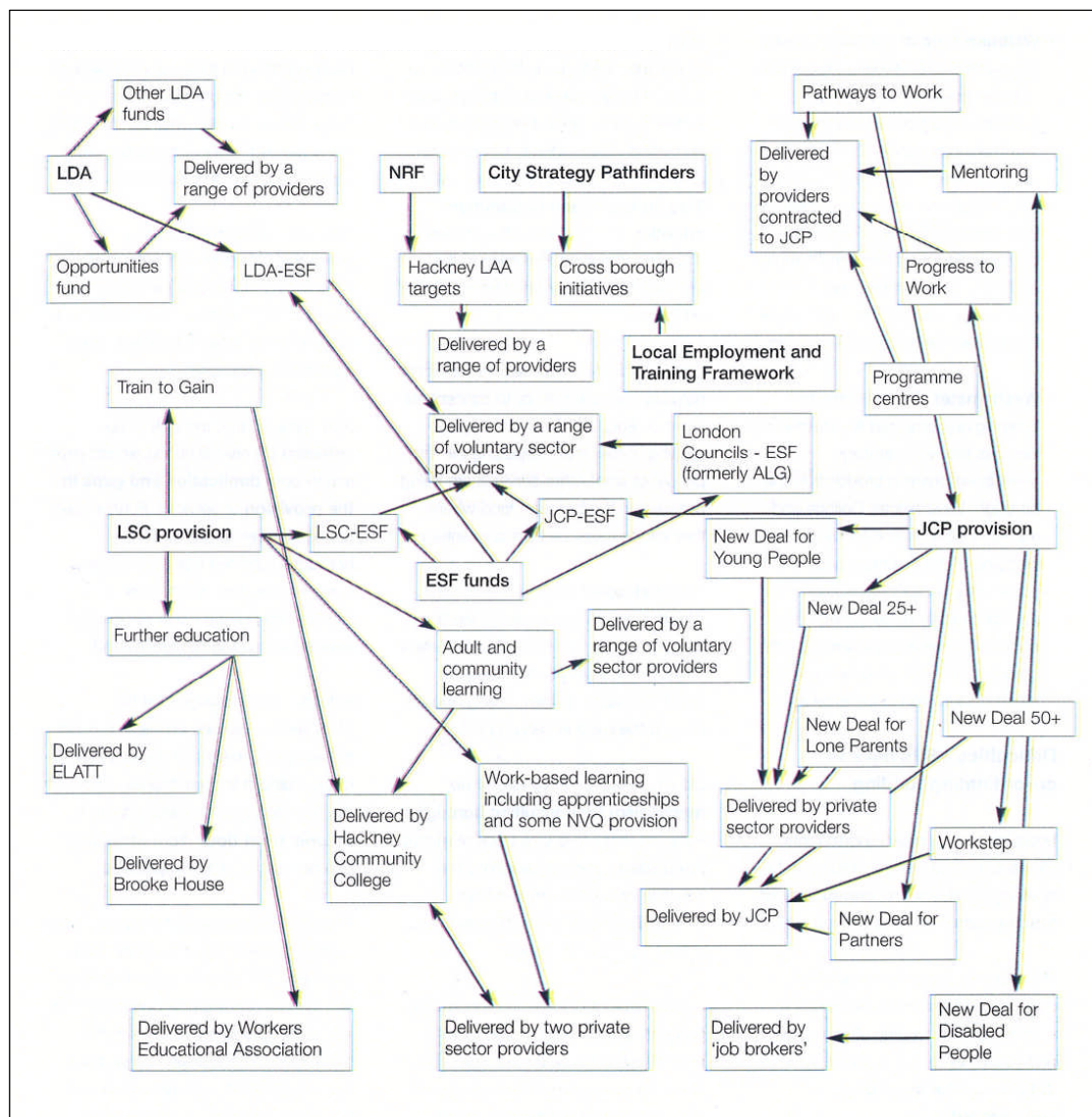


Figure 2: Public sector training and employment support landscape in Hackney

## London Development Agency

6.5 Within London, the LDA works within a very complex environment and needs to coordinate its activities and regeneration funding strategy with other public bodies. The total value of regeneration funds available for London approaches £3.5 billion annually.

- 6.6 Around £2.2 billion is spent in London per year by the Government's key employment, training and enterprise delivery agencies. These funding bodies include the Learning and Skills Council (LSC), Government Office for London (GOL), London Councils, European Funding (European Social Fund and European Regional Development Fund) and JobCentre Plus.
- 6.7 The Homes and Communities Agency (HCA)/Housing Corporation's London regional allocation for new build affordable housing is a further £3.3 billion for 2008 to 2011.
- 6.8 Historically, each organisation responsible for funding has approached the market with an independent strategy. Quite often projects will receive regeneration funding from a number of sources, each of which have their own priorities and views on the scope and structure of the project.
- 6.9 The LDA needs to establish how best to serve the citizens of London and has to decide between setting and managing a strategic vision and creating an environment where other organisations deliver on its behalf (the market making and commissioning approach), or taking on delivery responsibilities for key programmes to achieve the outcomes itself.
- 6.10 Historically, the LDA has set and managed its own programme of work, through delivery partners, and has had a direct role in funding and managing the specific projects. Much of its focus has been on "getting the money out of the door".

## Recommendations

- 6.11 The Panel believes that greater value for money from the funding of regeneration through public funds could be achieved if the following steps were undertaken:
- (a) The funding should be channelled and administered through a single well managed process. This would appear to be an obvious role for the LDA, who could work with the Mayor and the GLA to develop a single regeneration vision for London, against the Mayor's overall strategic vision, consolidate regeneration funding and account to each funding body through a common performance management framework against pre-defined outcome objectives.
  - (b) The regeneration activity resulting from these funds should be undertaken by those organisations best able to understand the needs of the local population across London. The responsibility for delivery should be discharged through the London Boroughs, the third sector and the private sector, working individually or in parallel. In our view, the better and most cost effective vehicle (i.e. avoiding an additional layer of bureaucracy by having the flattest structure possible) generally speaking would be the London Boroughs delivering their Local Development Frameworks. This would place the LDA primarily in a strategic commissioning role, commissioning and managing a small number of strategic programmes.

- (c) The allocation of funds across the needs of the London Boroughs should be managed by the LDA, responding to business cases from the Boroughs. The LDA should also facilitate the development of pan-London or multi-Borough business cases, where local needs are best met by two or more London Boroughs working together.
- (d) Regeneration funding for housing, economic growth and skills and jobs should be pooled as far as possible into a single pot. This would enable the Mayor to link his strategies in each of these key areas in one single regeneration vision. A diagram indicating how this might work in practice is at Appendix 2.

6.12 Implementation of this new arrangement would require further work to define the basis upon which regeneration funds will be allocated, build the strategic commissioning skills within the LDA, ensure that the necessary programme and project delivery capacity and capability exists within all London Boroughs and influence other parties outside the GLA group to consolidate regeneration funding to deal with a pan-London agenda.

## Appendix 1 – Regeneration funding

The following analysis sets out the activities of the public sector organisations within London with a role in funding or managing regeneration:

### LSC (Learning and Skills Council)

#### Remit and funding objectives

- 1 The LSC is responsible for planning and funding education and training. After 2010 LSC will be disbanded with more responsibilities devolved to local authorities and the funding for adults and children will be subdivided. At present the LSC funding is divided into several areas:
  - (a) Youth - with projects such as E2E Entry into Employment;
  - (b) NEET (Not in Employment Education or Training);
  - (c) Apprenticeships 16-18 projects;
  - (d) Adult Learner Responsive - with programmes such as Skills for Life;
  - (e) Skills for Jobs and level 2 and 3 skills qualifications;
  - (f) Employer Responsive - with programmes such as Train to Gain and apprenticeships for 19+ and 25+;
  - (g) There is also OLASS which is a budget for an offender learning programme and there is a budget for programmes for people with learning disabilities.

#### Budgets

- 2 Nationally the LSC currently receive mainstream funding of £10.7 billion with the London region receiving £1.78 billion. The national budget is divided up into £6.8 billion for young people, £3.3 billion for adults and £367 million for further education and training facilities. The division of funding for London regions is similar to that nationally with approximately two thirds of the budget going to young people. LSC also receive European funding - for details see below.
- 3 There are 9 LSC regions across England and London is one of those regions. London is further divided into five sub-regions.



## **GOL (Government Office for London)**

### **Remit and funding objectives**

- 4 GOL represents central government across London delivering a range of policies and programmes for 11 central government departments. GOL leads negotiations on the LAA (Local Area Agreement), delivery of the Every Child Matters Agenda, policies on crime reduction, reduction of drug misuse, planning and neighbourhood renewal.
- 5 Previously GOL was responsible for programmes in economic development within London; however, with the creation of the position of London Mayor this responsibility has been transferred to LDA which is accountable to the Mayor and GLA (Greater London Authority). This is different from other regional development agencies; these agencies are accountable to central government on economic development matters.

## **London Councils**

### **Remit and funding objectives**

- 6 London Councils is funded through subscriptions from member organisations (all 32 London boroughs, the City of London, the Metropolitan Police Authority and the London Fire and Emergency Planning Authority) and TfL, as the main budget is for the Freedom Pass.
- 7 Policy work and lobbying - London Councils carries out a wide range of policy work and lobbying covering important issues for member authorities and Londoners and commissions research and develops policy to support lobbying campaigns.

### **Budgets – grants & subsidies**

- 8 Freedom Pass: this is the scheme that allows more than a million older and disabled Londoners to travel free on the capital's buses, tubes and trains. It costs £260 million a year and is paid for by the London's boroughs.
- 9 Grants: London Councils distributes nearly £28 million a year to some 300 voluntary groups on behalf of the boroughs. It aims to commission services from groups working in clearly defined priority areas, to ensure Londoners throughout the capital have access to the services they need.

## **European Funding**

- 10 London is eligible for European Funding which is administered by some of the above agencies. There are two main programmes relating to economic development, namely ESF (European Social Fund) and ERDF (European Regional Development Fund).

## European Social Fund (“ESF”)

- 11 A new ESF programme was launched in 2007 for the period 2007-13 with projects aiming to begin in April and May 2008. For the six year period £320 million will be available across the whole of London and the programme will be advertised in tranches by the various co-financers.
- 12 The aim of ESF is to improve employment opportunities by helping those most disadvantaged in the labour market to obtain skills and thus have better prospects in the job market. The two main priorities for the fund are extending employment opportunities (projects working with unemployed people) and creating a skilled and adaptable workforce (projects aimed at upskilling people in work). Only projects working towards these priorities are eligible for ESF funding which also requires “matched” funding from other partners.
- 13 There are four ESF funding streams to be delivered by four co-financing organisations in London, each with different commissioning processes and timetables. These organisations are needed because smaller individual organisation may sometimes find it difficult to find matched funding themselves, and therefore without co-financing would not have access to the ESF. These four co-financers are the Learning and Skills Council, the Department of Works and Pensions and JobCentre Plus, the LDA and London Councils:
  - (a) Learning and Skills Council £178 million across London 2007-13 available for skills training for adults and NEET young people, and employer responsive projects (that is projects working to improve the skills base of employed adults). The LSC also encouraged large bids across the five regions in London.
  - (b) Learning and Skills Council £178 million across London 2007-13 available for skills training for adults and NEET young people, and employer responsive projects (that is projects working to improve the skills base of employed adults). The LSC also encouraged large bids across the five regions in London.
  - (c) London Development Agency £17.2 million is available via the LDA to extend employment opportunities and skills for the unemployed and economically inactive and £3.06 million was available for creating a skilled and adaptable workforce. There will be a further programme advertised in the autumn.
  - (d) London Councils £7.2 million was available exclusively for voluntary and not-for-profit organisations who are working across at least two boroughs. The programme's aim is to improve the employability and skills of particularly disadvantaged groups such as disabled parents, those recovering from addiction, homeless families, carers and BME groups, refugees and asylum seekers.

## **European Regional Development Fund (“ERDF”)**

- 14 For the ERDF Programme 2007-13 funding is considerably reduced from previous years with £128 million over the whole programme across London.
- 15 The Programme is administered by LDA European unit with a programme Management committee chaired by the Mayor and sub-regional partners.
- 16 There are three priorities - business innovation, research and development and eco-efficiency (with the objective to ensure economic opportunity in the most disadvantaged areas) - access to new markets, access to finance, strengthening entrepreneurship (with the objective to boost employment and productivity and growth particularly in disadvantaged areas) and sustainable urban regeneration.

## **Homes and Communities Agency/Housing Corporation**

### **Remit and funding objectives**

- 17 The Housing Corporation invests in new affordable homes and in adapting or replacing existing dwellings. It is also the regulator of registered social landlords. Subject to the successful passing of the Housing and Regeneration Bill, the Housing Corporation will combine with English Partnerships and the delivery functions of the Community and Local Government to form the Homes and Communities Agency (HCA). This is intended to be operational by 1 April 2009, although it may be operational before then.
- 18 The HCA will have operational responsibility for the delivery of major housing and regeneration projects and of major housing growth (such as Milton Keynes, Ashford and London Stansted Cambridge). The Agency will also take on delivery responsibilities for the decent homes programmes for the social housing sector and take on the housing and regeneration delivery functions of the CLG including the Thames Gateway.
- 19 The 2008 - 2011 National Affordable Housing Prospectus published by the Housing Corporation had the following priorities for London Region.
  - (a) For the three year programme, 70% of new affordable homes to be social rent and 30% intermediate;
  - (b) 42% of all social rented homes to be 3 bed +;
  - (c) In 2008-09 8% of intermediate homes to be 3 bed + rising to 16% by 2010 - 2011;
  - (d) Support 1,250 bed spaces for supported housing;

- (e) Support funding to bring empty homes back into use for family accommodation;
- (f) Encourage development close to existing transport nodes, particularly those areas in the London Plan identified as opportunity areas, areas for intensification and areas for regeneration;
- (g) Prioritise funding for 11 strategic sites across London over next 5 years;
- (h) Encourage bids in the Growth areas and Growth points of regions adjoining London in return for a minimum of 30% nominations being offered to London;
- (i) £5 million set aside to support new housing outside London for elderly social rented Londoners to move to, freeing up their existing home; and
- (j) The Housing Corporation will prioritise refurbishment of existing social housing estates and the introduction of different tenures if:
  - (i) there is an increase in the number of homes;
  - (ii) the existing number of social rented homes is maintained;
  - (iii) it creates more sustainable communities in terms of tenure mix;
  - (iv) delivers environmental improvements;
  - (v) creates a sense of place; and
  - (vi) forms part of a longer term project to regenerate the wider neighbourhood.

### **Budgets, grants and subsidies: Housing Corporation**

- 20 In 2006-08 the Housing Corporation invested £3.9 billion nationally, delivering 84,000 new affordable homes. For 2008-11 the budget is £8.4 billion aimed at delivering 180,000 new homes of which 105,000 will be for social rent and 75,000 for low cost home ownership.
- 21 The London region allocation over the three years is £3.3 billion.
- 22 To date the Housing Corporation has allocated £705 million, £500 million for rent and £200 million for intermediate housing.
- 23 Further allocations will be made quarterly from July 2008 to October 2010 through a process known as regular market engagement (RME). RME will allow bidders to take schemes to the Housing Corporation for funding as and when they become deliverable.

- 24 Budgets, grants and subsidies: Homes and Communities Agency.
- 25 The combined Homes and Communities Agency will have the following National budget:
- (a) £8.4 billion Housing Corporation programme;
  - (b) £0.9 billion English Partnerships;
  - (c) £1.7 billion Growth;
  - (d) £2.4 billion ALMOs;
  - (e) £1.0 billion Housing Market Renewal;
  - (f) £1.7 billion PFI credits; and
  - (g) £0.1 billion Hostels.

## **JobCentre Plus**

### **Remit and funding objectives**

- 26 JobCentre Plus is part of the Department for Work and Pensions (DWP), assisting people into work and helping employers fill vacancies. Priorities for 2008-09 are to implement the welfare reform changes announced in December 2007; these comprise plans to introduce:
- (a) the new Employment and Support Allowance regime for new customers claiming benefits for a sickness or disability;
  - (b) partnership working between Jobcentre Plus, public, private and third sector providers and employers through Local Employment Partnerships;
  - (c) a new range of services for lone parents; and
  - (d) preparatory measures for a flexible 'New Deal' of more tailored support for people looking for work, alongside an integrated employment and skills service.
- 27 JobCentre Plus are required to provide these services more efficiently. Measures to reduce costs will include reducing staff numbers and closing JobCentre Plus offices. Initial proposals outline plans to close 6 of the 90 offices in London.

## Appendix 2 – Regeneration in London – a proposed framework

