

Investment and Financial Strategy 2010/11 to 2013/14

## **Investment Methodology 2009**

*The key recommendation for future LDA budgets is for higher spending in the sustained employment investment theme – particularly in the areas of employment support, skills and youth (although more London specific evidence on youth interventions is required). Findings suggest that expenditure on the climate change investment theme should be increased, starting from its lower absolute level.*

*To maximise the returns to the London economy from public expenditure, the LDA should also seek to influence the spending decisions of other public sector bodies on employment and skills.*

### **Summary of principles behind the budget prioritisation**

The investment methodology considers evidence on the average returns to different policy areas that correspond to the twenty LDA programmes – each now aligned under one of six investment themes.

From 2008 LDA evaluations were used to supplement wider evidence on the effectiveness of public expenditure. The aim is to incorporate more LDA evaluations into the investment methodology during the course of 2009.

The evidence collected is used within a model along with total public spending in each policy area from HM Treasury to estimate an 'optimal' balance of funding across policy areas in London. This situation occurs when returns to spending in each policy area (found by comparing total benefits to society divided by total costs) are equalised and the limit of total public expenditure in London is reached. Thus when returns are equalised no spending can be moved from one area to another for a greater overall return.

With estimates of the optimal levels of public spending in London the LDA can direct its limited resources towards the areas where they will contribute the greatest economic benefits. This is intended to act as a tool to aid decision making.

In 2009, as in previous years, the investment methodology suggests that the LDA should increase its spending in the sustained employment investment theme.

The proposed increase in the sustained employment theme is principally on labour market initiatives, aimed at getting the people who are out of work (unemployed or economically inactive) into work through intensive job-search support and basic skills training. Evidence also suggests good returns to youth interventions, although more research is needed into the effectiveness of UK and London based youth projects.