
Subject: Investment and Financial Strategy 2010/11 to 2013/14
Report No: Public Item 02.2
Meeting date: 16 September 2009
Report to: Board
Report of: Andrew Travers, Group Director Resources and Performance and Erika Lewis, Director Corporate Strategy
Key Theme: Corporate

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1. Purpose

- 1.1. To consider the key strategic issues which will impact over the planning period, note the tools developed for planning in response to changes in budget levels or strategic priorities and agree draft financial planning totals for first stage business planning purposes.
- 1.2. To set out an approach to consultation and detailed work on the Investment and Financial Strategy.

2. Recommendations

- 2.1. That the Investment Methodology is **noted**
- 2.2. That draft planning totals for 2010/11 to 2013/14 based on the principles of the methodology and modified following discussions with Board members are **agreed**.
- 2.3. That the processes to determine project portfolios and administration budgets are **agreed**.
- 2.4. That the Investment Strategy documentation content and format is **discussed** and that approval of a final document is **delegated** to the Chair. Also that that the consultation process is **noted**.
- 2.5. That the next steps of the Investment and Financial Strategy process are **noted**.

3. Summary

- 3.1. The report presents the outcomes of the Investment Methodology and the resulting recommendations in terms of budget allocation across investment themes. These recommendations will form the basis of discussions with board members prior to the board meeting. Following the Board discussions the final planning totals will be tabled at the meeting on the 16th September for agreement. A Prioritisation Model will also be presented at the pre-meeting discussions. This model will form a key part of the business plan development process over the coming months. It is designed to enable the compilation and analysis of project portfolios. In addition, an outline Investment Strategy consultation document is presented.
- 3.2. The Investment Strategy sets out what we would expect to deliver in terms of our 6 themes: Regeneration, Climate Change, Business Support, International Promotion, Sustained Employment and Olympics. It also sets out how we intend to operate:
 - We will pursue new partnering options and innovative purchasing models
 - Our project plans built with a better understanding of end-customer and market profiles
 - We will be commissioning fewer, larger projects, moving from around 600 towards approximately 50, designed to make a clear impact but with built in flexibility. Since a significant number of projects are due to end in March 2010 this approach will have an immediate impact on the nature of our project portfolio
 - We will be clear about our benchmarks as a basis for driving value for money
 - Our project development process will have clear links with evaluation process to ensure organisational learning
- 3.3. The report also proposes a process for the consideration of administration budgets based on savings targets.

4. Background

- 4.1. The Board gave initial consideration to Investment and Financial Strategy at the meeting on 22 July. At that time the key strategic issues were identified as follows:

- the Mayor's Economic Development Strategy (EDS), currently at consultation document development stage, provides the long-term strategic overview for the development of LDA strategy;
- the Board has agreed six themes for investment planning, together with eight principles to guide investment within those themes¹ ;
- key features of the government's policy agenda are the approach to industrial activism set out in New Industry, New Jobs, and the rationalisation of business support by the development of the Solutions for Business package;
- there will be no Spending Review (SR) before the next general election, but future public expenditure planning totals released with the April 2009 budget imply real terms reductions indicating that the next government will need to consider a radical programme of change in public service delivery arrangements.

4.2. The Board asked that officers develop:

- a comprehensive methodology for evaluating programme and project interventions;
- a process to use this methodology to make choices between investment options; and
- a way of using this process to plan for varying overall budget scenarios.

4.3. Reports elsewhere on this agenda set out developments in respect of the LDA's Olympic funding strategy and the establishment of the Olympic Park Legacy Company (OPLC). The outcomes of these issues, particularly in respect of the treatment of land and LDA debt, will impact on resources available for other priorities over this planning period.

5. Resource assumptions

5.1. The previous report noted the uncertain but bleak prospects for future public expenditure post 2010/11. The report proposed resource planning assumptions as follows:

1.1. _____

¹ The Board principles of investment: Address an identified market failure; Have an understanding of value for money and return to London's economy; Have clear and measurable outcomes; Visibly contribute towards LDA strategy and objectives; Achieve both in the long and short term; Are sustainable in the long run without LDA funding; Offer a significant intervention either in terms of visible change or repeatability; Are delivering in partnership to ensure compatibility with other investments in the geographical area; Align with other key strategic drivers such as LSEB, London Plan, Mayor's Transport Strategy, EDS etc

- for 2010/11, the planning total from the last Comprehensive Spending Review (CSR), but reflecting the £53m reduction from subsequent government budget 'raids';
- for 2011/12 and future years, assuming the 2010/11 post-raid level constitutes the new base position and that 5% year-on-year cash reductions are imposed by government.

For the purposes of first stage business planning, it is proposed that these resource assumptions are retained.

- 5.2. The Olympic funding strategy is based on planned contributions from mainstream grant through the twenty-year funding period. Future contributions are contingent upon current discussions regarding the funding of revised land commitments and the treatment of land and debt following the set-up of the OPLC. For planning purposes in this report, future grant contributions are assumed to be in line with previous assumptions. This reflects the Board's 'no detriment' position on OPLC set-up.
- 5.3. Given the level of uncertainty on future resource levels, it is essential that commitments are carefully managed and that investment planning is based on processes which clearly identify choices between programme and project options, enabling informed and flexible responses to evolving resource scenarios. This is discussed later in the report.

6. Resource allocation

- 6.1. Through the 2009/10 Investment Strategy and Business Planning process, resource allocation was informed by an emerging investment model which brought together consideration of outputs, outcomes, unit costs, and broad categories of Gross Value Added (GVA).
- 6.2. In terms of overall resource allocation, further work has been undertaken to refine an Investment Methodology (IM). The IM is an economic analysis tool which provides an indication of the optimum allocation of limited resources. It is based on the investment themes identified by the Board. It reflects evaluation evidence giving Benefit Cost Ratios (BCR) as an indicator of overall return rather than GVA and allowing for diminishing returns, LDA planned expenditure, and wider public expenditure across relevant policy areas. An explanation of the IM and its recommendations is attached at appendix 1. The resource allocation model has also now been updated to mirror this refined IM.

Taking the revised LDA budget for 2009/10 agreed by the May Board as a starting point, the IM and its associated evaluation evidence indicates that the spending share should be higher for the climate change and sustained employment themes, and consequently lower for the other themes particularly Business Support and International Promotion.

- 6.3. This analysis will be discussed with Board members in the run up to the Board meeting on the 16th September. Following discussions, modified draft planning totals will be offered for agreement at the Board meeting. The totals will be used for initial input into the GLA budget process, the LDA Investment Strategy consultation process, and to form the basis for subsequent detailed work on business plans.

7. Investment Strategy and Business Planning

- 7.1. Appendix 4 offers an outline for a proposed Investment Strategy consultation document. The attached documentation is designed to give a proposed format and outline content in the form of a 'straw man' for discussion purposes. Following board discussion the final document will be worked up to into a full document for final edit by a copy writer to ensure that the tone and style are appropriate. It is proposed that the Investment Strategy will outline the developing new approach in terms of commissioning, value for money and our approach to working with our partners particularly in boroughs and sub- regions. It would offer theme by theme analysis that includes proposed objectives, context, key messages, interventions and metrics. The document would also set out a format for and an example of analysis by sub-region of issues, priorities and current investments.
- 7.2. Once the document is finalised it is proposed that the approval of the final consultation document is delegated to the Chair. The proposed consultation process is outlined below.
- 7.3. Detailed business planning will be undertaken using the agreed planning totals and will be completed through October and November.
- 7.4. As a part of the business planning process consideration will be given to how specific interventions can be prioritised within the overall planning totals. This will be done using a project portfolio analysis model. This model uses the Board's investment principles as the basis for a Green Book style project valuation process. This tool is illustrated at appendix 3. It will be presented for discussion to board in meetings prior to the Board meetings on the 16th September.
- 7.5. The business planning process will be supported by the use of the two analysis tools to model possible responses to changing overall resources and changes in strategic priority as follows:
 - Investment Methodology- offering modelling of overall return in the form of BCR
 - Project Portfolio analysis- offering an understanding of the corresponding overall portfolio with sub- regional investment plans

7.6. The timetable is at appendix 5. Business planning proposals will be offered for board consideration in November.

8. Administration budgets

8.1. The administration budget has previously been driven by the achievement of savings targets set within the previous CSR. The target required savings of £10.4m for the period 2008/9 to 2010/11 and was, in fact, exceeded a year ahead of schedule. The bulk of these savings was delivered by the restructuring process through the latter part of 2008.

8.2. This position is reflected in the administration budget of £41.6m for 2009/10 and in the draft planning total of £42.4m for 2010/11. The draft planning totals for 2010/11 and future years also assume overall cost inflation of 3% per annum.

8.3. In reality, administration budgets over the planning period will need to reflect the following factors:

- likely real terms reductions in public expenditure totals, and the government response to this through an 'operational efficiency programme' and 'service transformation plans';
- reduction in overall resources available to the LDA and the consequent reduction in project expenditure;
- changing workforce requirements and structures to deliver the LDA agenda and commissioning strategy;
- the remuneration policy considered elsewhere on this agenda;
- the drive towards greater efficiency in support services provision, including the shared services agenda.

8.4. In view of this, it is proposed that administration budgets are given specific consideration through the financial planning process and that targets are set to enable this. Targets should have regard to the reduced overall resources likely to be available, but should also consider the wider agenda set out above. On this basis, target savings of 2.5% per annum are proposed as follows:

£m	2009/10	2010/11	2011/12	2012/13	2013/14
Planning total	41.6	42.4	43.6	44.9	46.2
Inflation @ 3%		1.3	2.5	3.8	5.1

Adjusted total		41.1	41.1	41.1	41.1
Target		40.1	39.1	38.1	37.1
Target saving (cum)		1.0	2.0	3.0	4.0
Overall budget	442	438	415	421	294
Administration %	9.4	9.2	9.4	9.0	12.6

The above targets are based on 2009/10 price levels. The planning basis for pay and price inflation will be determined later in the process. The achievement of the above targets and the revised inflation assumptions will enable administration planning totals to be reduced, releasing further resources for programmes.

9. Consultation

- 9.1. The consultation and communication plan for the EDS is currently being finalised. The consultation on the LDA's Investment Strategy will run concurrently with this.
- 9.2. The Investment Strategy consultation process will be run jointly by the Business Engagement, Partnership Development and Stakeholder Management teams. The focus for this activity will be small-scale direct engagement with key stakeholder groups.
- 9.3. Alongside this engagement all stakeholders will be invited to participate in a mixture of web based/ written consultation.

10. Next steps

- 10.1. The key next stages of the process are as follows:
 - the Investment Strategy consultation documentation will be completed, approved by the Chair, considered for sign-off by the Mayor, following which consultation will begin;
 - LDA officers, in conjunction with Board theme leads, will undertake detailed business planning using the agreed planning totals;
 - LDA officers will consider the administration budget in line with the targets set out in paragraph 8.4.
- 10.2. Further Board consideration will take place at the November Board meeting and the scheduled awayday on 24 November 2009. The Board will agree the final Investment and Financial Strategy at the Board meeting in January. The full timetable is set out at appendix 5.

11. Mayoral advice and direction

- 11.1. The Mayor's office receives regular updates on the Investment and Financial Strategy process. The Investment Strategy consultation document is subject to Mayoral sign-off.
- 11.2. Directions have been received in respect of trees, sport, academies, and food projects. These will be treated as commitments and included against the relevant planning totals.

12. Comments of the Director of Finance & Performance

- 12.1. The report refers to challenging resource assumptions. The budget will need careful management and monitoring in order to optimise its resources and the Agency is strengthening the monitoring and project scrutiny processes it has put in place over the last year

13. Comments of the Director of Law & Governance

- 13.1. No immediate legal implications arise from the contents of this report.

14. Appendices

- Appendix 1 – Investment Methodology
- Appendix 2 – Planning Totals (to be tabled)
- Appendix 3 – Prioritisation Model
- Appendix 4 – Outline for Investment Strategy consultation document
- Appendix 5 – Timetable

15. Background documents

- None

Report approval checklist

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Please click on the relevant box to select it.

	Yes	No
Approved by Director of Finance and Performance or nominee (please state): Caroline Mikardo	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Approved by Director of Law and Governance or nominee (please state): Debbie Adams	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Approved by Group Director (please state): N/A	<input type="checkbox"/>	<input type="checkbox"/>