

London Borough of Hammersmith & Fulham  
**Finance, Commercial Revenue and  
Contracts Policy & Accountability  
Committee  
Minutes**



**Wednesday 29 January 2020**

**PRESENT**

**Committee members:** Councillors PJ Murphy (Chair), Patricia Quigley and Guy Vincent

**Co-opted members:** Tony Boys (Community) and Chris Littmoden (Community)

**Other Councillors:** Councillor Max Schmid – Cabinet Members for Finance and Commercial Services

**Officers:** Kim Smith (Chief Executive), Hitesh Jolapara (Strategic Director - Finance and Governance), Jacqui McShannon, (Director of Children's Services), Emily Hill (Assistant Director - Finance), Joanne Woodward (Chief Planning Officer) Andrew Lord (Head of Strategic Planning and Monitoring), Kellie Gooch (Head of Finance, Environment), Gary Hannaway (Head of Finance - Parking) , Tony Burton (Head of Finance - Children's Services), Prakash Daryanani (Head of Finance, Social Care), Firas Al-Sheikh (Head of Housing Financial Investment & Strategy), Danny Rochford (Head of Finance - The Economy Department), Andre Mark (Interim Finance Business Partner), Matt Patterson (Interim Head of Spatial Planning) and Kayode Adewumi (Head of Governance & Scrutiny)

**20. MINUTES**

The minutes of the meeting held on 23 September 2019 were approved and signed by the Chair.

**21. APOLOGIES FOR ABSENCE**

Apologies for absence were submitted by Judith Worthy, Eric Hohenstein and Councillor Fiona Smith.

**22. DECLARATIONS OF INTEREST**

There were no declarations of interest made.

**23. 2020 MEDIUM TERM FINANCIAL STRATEGY (MTFS)**

Hitesh Jolapara, Strategic Director, Finance and Governance, gave a detailed presentation on the national context and the Council's Budget.

The 2020/21 gross General Fund budget is £525m of which the net budget requirement of £154.3m is funded from council resources (such as council tax and business rates) and general government grant. A balanced budget is proposed for 2020/21 with a contribution to reserves of £7.2m. Government grant funding will increase by £3.6m from 2019/20 to 2020/21 as a result of the Government's pre-election spending round in September 2019. This increase follows a decade of grant cuts with overall funding reducing by £68m from 2010/11 to 2020/21. This was a real terms funding cut of 54%.

The Government's proposed 'fair funding review' in 2020/21 is likely to be bad news as it is anticipated that resources will be redistributed away from inner city areas, which have traditionally received funding to address higher levels of deprivation. Due to the continued high levels of inflation in the social care market and the government's continued failure to propose a long-term funding solution to social care funding, the Council proposes a 2% adult social care levy for 2020/21.

An increase in the Council's element of council tax of 1.99% is proposed for 2020/21. This will generate extra income of £1.2m in 2020/21 and £4.9m over a four-year period. This will support investment in key services for residents and future financial resilience. The business rates system is changing for a fourth successive year. Current modelling forecasts that Hammersmith and Fulham will benefit by £1.9m from the 2019/20 pilot and this is assumed within the 2020/21 budget. As the pilot has ceased, the expected benefit is a one-off sum and therefore will be moved to reserves. The actual benefit will not be confirmed until September 2020. The instability in the government's approach to business rates makes medium-term financial planning difficult.

A national pay award has yet to be agreed for 2020/21. Provision is made within the budget for an increase of up to 2% (£1.7m) and this will be held corporately until a national agreement is reached on the annual pay award. Inflation of £2.6m has also been provided, on a case by case basis, to meet contractual requirements.

The Committee welcomed the presentation and asked some questions on the issues highlighted below.

The Chair asked what had accounted for the previous years' reported underspend turning into overspends. Officers responded that resources have been going down, the increased complexity and demand for social care have all contributed to the change. The Council is cutting spend by £10-15m annually.

Officers were requested to ensure that reports were written with laymen understandable terminology with figures cross referenced. Members were happy with the trend analysis in the report but asked for more ratios in the future.

It was noted that £7.2m was contributed to reserves from the business rate pilot pool (£1.5m) and Council tax collection fund surplus (£1.8m) as a result

of more people paying council tax than modelled. Parking revenue and fines are set in line with parking policy rather than to generate revenue. Any surplus income generated must be spent on specific expenditure including transport infrastructure, concessionary fares and environmental improvement projects. The Committee asked for further information to be provided on this as there is a misconception that the Council can use parking revenues on any council activity.

Members inquired how will officers reduce the £9.449m overspend reported in CRM 6. If at the end of the year, the outturn is more favourable than reported now, should members be concerned about the Council's budget and financial management. The meeting was informed that officers were generally cautious at this time of the year. There will be some movement but children's placement costs, and transports and care arrangements continue to be high pressure areas with significant demand growth and increased costs. Mitigation plans are consistently reviewed.

The council at any time is supporting 1,100 children in need. Around £18m is spent on looked after children. Jacqui McShannon (Director of Children's Services) noted that there has been an increased demand in the number of children and young people in care from 239 to 264 and rising. The reasons for children coming into care has changed. The complexity of needs is forcing children into high costs places. Statutory responsibility changes extending responsibilities up to age of 25 has also put pressure on the budget.

The council benchmarks itself against other local authorities. Nationally, the number of children in care is going up. Local authorities in West London are seeing changing trends particularly due to increased teenage violence. Unfortunately, it is higher here compared to other boroughs. The council is looking at early year intervention measures.

The placement costs are rising because of the national pressure on placements with the very complex needs, changes in statutory responsibility and high levels of youth violence. In response to a query whether the £8.9m overspend on month 7 includes the £5.7m high needs block provision, it was noted that the reserve forecast assumes provision for the DSG deficit. The Education and Skills Funding Agency is engaging with local authorities to find a solution to this national problem.

Members asked how much of the savings identified can be attributed to Zero based budgeting (ZBB) and are we obtaining value for money from team. Officers reported that the ZBB team is working in collaboration with finance and service teams to identify and deliver savings. Councillor Schmid was of the view that the team was providing value for money. There are some bigger ideas in the pipeline which are not yet in the budget such as the residents' access programme. The team was good at using data and producing evidence to challenge how we do things. For residents, the budget is good news as the council is keeping and improving levels of service.

Councillor Quigley asked for clarification on the street lighting savings. Officers responded that the installation of sensors on street lighting (street lamps, illuminated signs and bollards) to remotely control hours and levels of illumination would be in line with residents' feedback and was also in response to the Council's climate change agenda.

The Committee once again thanked the officers for a very good job in ensuring that the Council produced a balanced budget.

### **Action**

- Copies of the Departmental presentations to be circulated to Members **(Kayode Adewumi – Head of Governance)**
- Officers to provide more information on the use of parking income. **(Gary Hannaway – Head of Parking Finance)**
- Officers to let Members know where the installation of sensors on street lighting has been used in other boroughs. **(Kellie Gooch – Head of Finance – Environment)**
- Officers to circulate the High Needs Block presentation to the Committee. **(Tony Burton - Head of Finance – Education)**

## **24. RESERVES STRATEGY AND ACTION PLAN**

The meeting received an update on the Council's reserves policy and strategy for their future use. Officers reported that in light of the uncertainty around future funding from the Government, continued action is required to ensure that reserves remain adequate to meet the pressures facing the Council over the medium term and deal with future unexpected events. The reserves strategy acknowledges the challenges facing the Council and proposes streamlining all available corporate and departmental reserves to focus on key priorities. An action plan is proposed to improve the medium term-outlook including actions to identify capital receipts to safeguard reserves.

It was noted that the Council carried forward a general balance of £19.0m and earmarked reserves of £62.3m at the start of 2019/20. This level of balances and reserves is slightly below average for a London Borough and reduced by £32.1m in 2018/19. The most significant movement in 2018/19 was setting aside £13.6m for the historic high needs Dedicated Schools Grant funding deficit. Key council projects were also supported such as the use of £5.5m for managed services implementation and £2.0m for the Civic Campus scheme. The Council has already committed to use reserves to fund several major initiatives and priorities. It also faces significant current and future financial risks (such as the current year forecast overspend, £9.4m at month 6 after mitigating actions) and potential costs of future service improvements. Finally, the meeting noted the Council's external auditors (Grant Thornton) comments on the level of the Council's reserves that the reserves level is of concern as there does not appear to be sufficient cushion to weather the ongoing financial challenges that the Council will face over the medium term due to reductions in central government funding and forecast pressures of the DSG funding. The Auditors strongly recommended

that the use of reserves remains limited in future years other than for specifically earmarked schemes.

Given the on-going scale of change in local government funding, and risks facing the Council as part of the 2019/20 budget report, Hitesh Jolapara, Section 151 Officer, recommended that general balances should be maintained within the range of £14m to £20m. The current general balance of £19m falls within this range which represents 3.6% (equivalent to 13 days spend) of the Council's gross budget of £525m.

Councillor Vincent observed that the reserves balances had decreased from £81.3m to £41.4m. He inquired how can the Council rebuild the balances back up and what is the ideal earmarked reserve figure? Hitesh noted that there are a wide range of measures possible to raise the balances such as asset disposals, invest to save, borrowing, tighter financial management and the receipt of one-off receipts from the Government amongst others. Councillor Schmid noted that there was no ideal earmarked reserve figure. The level is linked to the Council's priorities. The Section 151 Officer and politicians make a judgement call to set the level.

Regarding the details of the £17.610m civic campus proposed earmarked reserves (unrestricted), Emily Hill, Deputy Section 151 Officer, noted that the figure consisted primarily of property lease payment and relocation costs. If the scheme is completed within 3½ years it would require £40m but if it extends to 5 years it will cost up to £45m.

The Committee welcomed the report and requested officers to keep the figures under review with regular June and January updates presented to the Committee.

### **Action**

Regular June and January updates presented to the Committee.  
**(Hitesh Jolapara – Strategic Director of Finance and Governance)**

## **25. SECTION 106 AGREEMENTS - UPDATE REPORT**

The meeting was informed that the Council had negotiated over £600 million worth of developer contributions from new developments in the borough through planning agreements since 2014. This includes financial as well as non-financial contributions received through s106 legal agreements. The £600m figure excluded the cost of S278 works to the public highway as well as public transport improvements negotiated separately by Transport for London which also benefit Hammersmith and Fulham.

There are currently 228 individual S106 agreements in the programme, containing over 1,150 heads of terms. Funds have been received for 165 of these agreements and projects to deliver on the obligations are also underway. The remaining agreements are signed and completed although funds have not yet been received as the trigger points for payments have not been reached. Trigger points typically relate to a specific stage of

development, such as commencement of development works on site or the first occupation of a residential unit and are therefore outside the Council's direct control.

Members noted that the available balance (cash in hand) at 1 January 2020 was £55m. Most of these funds are limited to certain purposes or types of infrastructure through individual legal agreements or certain locations within the Borough. The future receipts negotiated were £124.1m. These are highly dependent on wider economic factors and whether development comes forward or not. Officers indicated that the expected future funds could be received over the next 10 to 15 years. The future funds excluded the S106 funds agreed for schemes where currently there is little prospect of the proposed developments coming forward, such as Earl's Court, Stamford Bridge, and Albert & Swedish wharves. The proposed expenditure was £63.5m.

The Members welcomed the report and noted that officers have taken a massive step forward in making a very complex issues very easy to understand. The report had provided a good overview of income, proposed expenditure and the process of allocation. Members commended the thematic approach to spend and the governance proposed to ensure that spend was in line with the Council's priorities. Finally, it was generally noted that the Council cannot freely spend the £55m S106 cash in hand.

The Chair thanked officers and the Co-opted Members for all their hard work on this issue. He was confident that the Council has a firm grip on this.

### **Action**

Officers were asked to add the names of the developers against the schemes in future updates. **(Joanne Woodward – Chief Planning Officer)**

## **26. CIVIC CAMPUS PROGRAMME - JANUARY 2020 UPDATE**

The meeting expressed its disappointment that the Deloitte report on West King Street Renewal Financial Review of Proposed Transaction was classified as exempt. It was not happy that the requested information was not circulated to Members on time. If the Committee was going to undertake its overview role, in future it must see all reports within a reasonable time.

Members expressed their concerns at the absence of any officer from The Economy department to answer questions and discuss this project. The lack of attendance was an indication that the Council had a significant key person dependency on only two senior officers.

During the discussions, the Committee asked why the JV contract had not been signed, how the risks (bar financial) identified in the Deloitte's report have been mitigated, and why the signing of the contract was not included in the progress chart. A lack of information on these key issues raise red flags and indicated that the project was not going to be completed on-time or on-

budget completion. The Committee thanked Hitesh and Emily for stepping in and noted that they were not expected to field questions outside of their remit.

The Committee were informed that the demolition was in progress and there is an expectation that the JV contract will be signed within a couple of days. Procurement was underway and bids had been received and were being evaluated. In terms of finance, the Council is putting £25m equity into the partnership and a separate decision had been made to buy the commercial units. This will give us a better control of the development and raise income for the Council.

In response to Members questions, it was noted that both parties are continuing at risk without contracts signed. The critical programme stages are the decant, demolition and construction.

Members stressed that the exchange of contracts were critical success factors. They expressed concerns that these were not finalised. The information given to members lacked the risk assessment or risk register. Currently, the committee does not have the necessary information to provide the required oversight. The committee is expected to have a comprehensive programme timeline, major dependences – suppliers, contracts, financial plans etc, and risk analysis and mitigating factors. Without these, the programme is proceeding at risk. Members were reassured that the council has in house experienced officers who can manage the programme. There is an internal Member and officer governance regime. Officers are supported by external expertise provided by Currie & Brown.

The Committee agreed that it needs to keep the programme under review with regular updates and briefings from officers to reassure them that the project will be completed on time and on budget as any major slippage would have a major impact on the Council's finances.

### **Action**

- Officers to organise briefing meeting with the committee members to ensure they are fully briefed and up to speed on what is happening. **(Dave Burns - David Burns Assistant Director - Growth)**
- The January 2020 Civic campus Full Council report be circulated to Members as background information. **(Kayode Adewumi – Head of Governance)**

## **27. COMMITTEE WORK PROGRAMME**

The work programme was noted.

## **28. DATE OF NEXT MEETING**

Wednesday 1<sup>st</sup> April 2020.

Meeting started: 7.00 pm  
Meeting ended: 9.48 pm

Chairman .....

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