

London Borough of Hammersmith & Fulham

# Finance, Commercial Revenue and Contracts Policy & Accountability Committee Minutes



Tuesday 12 February 2019

## **PRESENT**

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

**Co-opted members:** Erik Hohenstein, Chris Littmoden, Judith Worthy

**Other Councillors:** Councillor Stephen Cowan, Leader of the Council, Councillor Max Schmid, Cabinet Member for Finance and Commercial Services, Councillor Andrew Jones, Cabinet Member for the Economy and the Arts

**Officers:** Kim Smith (Chief Executive), Hitesh Jolapara (Strategic Director - Finance and Governance), Emily Hill (Assistant Director, Corporate Finance), David Burns (Assistant Director, Growth), Steve Miley (Director of Children's Services) Rhian Davies (Assistant Director, Legal and Democratic Services), Nicki Burgess (Business Engagement Manager), Jamie Mullins (Head of Revenues), Jenny Dixon (Taxation Manager), Leslie Bell (Practice Manager), Mary Lamont (Head of HR), Firas Al-Sheikh (Head of Housing Investment and Strategy), Andy Starkey (Inner Circle), Kayode Adewumi (Head of Governance & Scrutiny)

## **24. MINUTES**

The minutes of the meeting held on 30 January 2019 were approved and signed by the Chair.

## **25. APOLOGIES FOR ABSENCE**

Apologies for absence were submitted by Tony Boys and Councillor Fiona Smith.

## **26. DECLARATIONS OF INTEREST**

There were no declarations of interest made.

## **27. WEST KING STREET RENEWAL PROGRAMME**

David Burns, Assistant Director, Growth, gave a detailed background to the approved scheme. The Committee welcomed the report and asked some questions.

Chris Littmoden asked why was the scheme not fully devoted to providing affordable housing considering the pressures on the temporary accommodation budget rather than provide a mixed use of housing, commercial offices and cinema space. David noted that the scheme was designed in line with the Local Plan which requires the replacement of the cinema, provision of some office space, commercial units, and mixed residential homes. The space occupied by the cinema in the basement cannot be used for housing. Judith Worthy was of the view that the increased commercial units would compete with existing businesses. Officers noted that the development would encourage more people to come further down King street thereby increasing support for local businesses.

The Leader noted that the residents were outraged that the cinema was not replaced in the previous scheme. The cinema was one of the most popular aspects of the scheme which will attract more economic activity down West King street. The scheme would be self-funding as the aim is to attract new employment opportunities from new industries. The Administration aims to build over 3000 genuine affordable houses by the end of this term. The scheme includes other opportunities such as the Council is working on an alliance with Imperial College in relation to the private rented homes and buyers of the office accommodation. The affordable housing would relieve pressure on the temporary accommodation budget.

Eric Hohenstein asked what was the percentage of people who access our services in person. And has the Council looked at White City or alternative cheaper sites other than Hammersmith? He believed the Council was putting officers in the most expensive part of the Borough.

The Leader reported that the Council was looking at a 5:10 desk ratio with increased digital interaction with residents, a modernised workforce, modernised organisation operating with zero based budgeting principles enabling the organisation to run more effectively and efficiently. It is difficult to turn the town hall into any use other than offices.

Officers noted that the Council will be changing the way it works to reduce its footprint. Councillor Jones noted that there would be flexibility in the use of the town hall space. The Council would be able to expand or contract its footprint in future.

The Leader informed the Committee that there would also be a change of culture. The town hall would contain more than just Council offices. We will create a Civic Hub containing start up space, café hub, homework hub, shared office space with local businesses and other government agencies.

Chris Littmoden asked what are the efficiencies, success factors and KPIs? Councillor Murphy enquired about the control measures put in place to ensure that the project is delivered on time and within budget.

The Leader noted that there were a lot of factors which had to be taken into consideration when making the decision to proceed with this project such as savings on temporary accommodation costs, office costs, sale of offices, retail units provision, shared office space income and business starts space. Also increased productivity from highly motivated staff because of better office accommodation to work in. Finally, there will be great improvements of the West King street public realm.

**Action – Report back on success factors, KPIs, a table outlining the finances, and risks and mitigation against the risks.**

**Action by – David Burns**

Judith Worthy expressed concern that after reading the report it seems the committee had been drip fed with information. She was happy that the paper had put some context on the MTFS but was disappointed that the Committee had not previously received the Capital Strategy and Treasury management reports. From her analysis, this is a high-risk venture as there is a £14 million call on reserves to meet the DSG budget deficit as well as funding this project. There would be no more reserves left if the anticipated profit does not arrive on time or at all. Eric Hohenstein stated that he was also uncomfortable with the figures.

Officers reassured the Committee that the Council's external professional advisers have gone over the figures and are confident that the project is viable. The Council is responsible for the Town Hall refurbishment works. Emily Hill, Assistant Director – Corporate Finance, noted that the Council can borrow funds on a short-term basis to cover any delays in the project.

The Leader noted that the aim was to get lots more done for less. RFE has tightened how we spend money. We are not prepared to tolerate deficit spending. Section 106 funding going forward would be used to build affordable housing. It should not be used to balance the budget. Fulham Gasworks and Imperial College schemes would bring in significant sums which would be used to fund the project. The underlying risk is the cost of not going ahead with the project. The Town hall accommodation is not fit for purpose any longer.

Councillor Quigley asked for clarification of how the Council intends to raise £90 million to fund the project and how much are we borrowing? In response, Hitesh Jolapara, Strategic Director, Finance and Governance, noted that the Council could borrow up to £90 million. However, the Council would 1<sup>st</sup> look internally and finance part of the project through our internal cash balances where appropriate. The Council could also borrow from the Public Works Board, if required. If the Council lent the JV any funds, it would be at the market rate and terms.

Councillor Quigley asked why is the project finance based on the assumption that funding is loaned to the JV by the Council? Emily Hill responded that the JV would need cash to build the development. If the Council provides the funds, it gives us more control over the project. The Council could borrow at a lower rate than the JV. Once the Council makes the final land sale, it would know the ultimate cost and amount.

Councillor Murphy asked for the timeline of the financing and whether the loans would be secured. It was noted that the loans would be secured on the land. He expressed concern that there was a risk that the sale of the property would not cover the full value of the loans. Judith Worthy also expressed concern about the uncertainty and risk of not receiving £11 million profit.

David explained that there were a couple of factors which would influence the receipt: -

- Conditional land sale agreement
- Viable scheme achieving profitability
- Affordable housing sold to A2 Dominion
- Sale of private rented units
- Pre- sale of office accommodation

The build would be a fixed price contract. The Council has benchmarked the rates against similar projects. Deloitte has undertaken the cost challenges and sensitivity analysis.

**Action – Cost challenge and sensitivity reports to be sent to the Committee**

**Action by – David Burns**

The Leader reassured the Committee that funding of the scheme was viable. A2 Dominion are investing surpluses made at Riverside Studios back into the affordable housing.

Judith Worthy concluded that she recognised that this was a big project but there was more work to be undertaken on the funding. She requested for the Committee to be updated on the finances going forward to test the current assumptions.

**Action – Committee to receive a 6-monthly update on the finances going forward.**

**Action by – David Burns**

Chris Littmoden and Judith Worthy asked who is delivering the project and what experience do they have in non-residential construction? Councillor Jones explained that we have the experience of working with JV partners such as Stanhope. A2 Dominion has a track record of developing mixed use residential developments.

Councillor Murphy asked what were the project management arrangements for this important project? David explained that there is a Programme Board chaired by Kim Smith, the Chief Executive, which meets monthly. The Project team meets weekly. Members will also sign off key decisions as they arise.

Eric Hohenstein asked why is the Council decanting into leased buildings rather than buying one. David Burns noted that officers had looked but could not find any open market advertised sales or off market investible sites to pursue. The current decants costs were modelled on a 5 years occupation but the Council is seeking to return to the refurbished Town Hall in 3 ½ years.

The Leader noted that the Council was considering introducing zero based budgeting to re-engineer our business processes and deliver greater efficiencies. He asked the committee to look into this area.

**Action – Zero based budgeting to be considered at the July meeting.**

**Action by – Hitesh Jolapara**

## **28. USING OUR ESTATE MORE ECONOMICALLY**

David Burns, Assistant Director Growth, gave a presentation on using our estate more economically. The Committee noted that the 3 strategic approaches which were in development – Asset and Growth strategy, Schools Renewal programme and Corporate Landlord approach.

The Committee asked some questions during the presentation.

Councillor Vincent asked if the Council can borrow more to fund assets acquisition as part of our assets strategy? Officers noted that Council can borrow more but could not give an exact figure because there were other factors that had to be taken into consideration. Councillor Murphy asked for an explanation why Earl's court development would restrict the Council's borrowing ability.

**Action - An explanation why Earl's court development would restrict the Council's borrowing ability.**

**Action by – Emily Hill, Assistant Director – Corporate Finance**

Chris Littmoden asked whether the better utilisation of the school estate was undertaken within the framework of reducing council tax for residents. David noted that the programme was developed within the Council's Business plan.

Councillor Murphy asked how can we sweat our assets to increase income for the Council's use. He saw reducing council tax is an option, increasing housing stock, and improving the schools' assets as objectives of the assets strategy.

Hitesh clarified that there were many objectives of the asset and growth strategy including building affordable housing and increasing the Council's revenue streams. Any increase in revenue streams would reduce the budget pressures which could have an impact on Council tax levels

Councillor Murphy observed that the proposed asset strategy was to increase the supply of affordable housing rather than better sweat our assets. Officers should look at the opportunities to increase affordable housing as well as increasing commercial income for the Council. David said that the creation of mixed tenure housing, commercial assets and the use of community assets would all be explored as part of the strategy.

In response to Eric Hohenstein's question about the definition of affordable housing, David Burns noted that it is defined as 60% low cost rent and shared ownership. The Council will build additional units in line with planning policy.

Under the School renewal programme, Judith Worthy sought clarification whether the Council proposed to sell school's playing fields. She was concerned about the possible loss of green space. Steve Miley responded that the intension is to maximise air above schools and utilise space within the estate without compromising the play space available. We are proposals to rearrange school space in a more efficient way with affordable housing provision without impacting on the greenspace. This would also create an opportunity to balance the education debt.

Eric Hohenstein asked if the Council would increase school sizes? It was reported that increasing school sizes was not an objective. If the opportunity arose, we might decide to bring multiple provisions together like using space for alternative education provision and community use. The Council does consider the geographical location of schools especially near boundaries.

Dave stated that the Council will undertake an appraisal of every site which would include the economic possibilities.

Councillor Vincent sought clarification if the proposals where primarily put together to reduce the SEN debt. Steve stated that the main objective of rebuilding schools was to provide high quality education. We also need to balance education budget as our expenditure is higher than the money received from the government.

Councillor Quigley asked what were the chances of two schools merging? Is the intension to reduce the number of schools? Steve reassured the Committee that the intension was not to reduce the number of schools in the borough. We intend to utilise the school estate better, improve buildings which were not fit for purpose, utilise space better and improve education provision.

The Committee requested for a simple paper outlining: -

- What land do we own?
- What land can we redevelop?
- What are the opportunities available?
- What is the baseline and proposed rate of return on the investment?
- What are the benefits – economic and social benefits?
- What are the KPIs?

**Action - Report back in July.**

## **Action by David Burns**

Councillor Vincent asked how accurate is our asset register? Do we have a good understanding of the use? Has this been done before? Dave noted that the Council knows what we own but we could manage our assets better. We have reviewed our assets but not in such a comprehensive way. Cabinet has considered the Corporate Asset Strategy report.

Councillor Johnson requested that the appraisal assessment should be evidence based outlining the economic value and community benefits. David responded that an appraisal will take place to ensure viability. Consultation with the stakeholders would be undertaken. As the project pass through the Gateways, the financial, social and economic benefits will be appraised.

## **Opportunities to Explore Proposed**

Councillor Murphy asked if there was anything stopping us from borrowing cheaply from the Government to invest in commercial assets. Emily Hill (Assistant Director, Corporate Finance) responded that there was nothing stopping us from doing so but CIFPA and the DCLG have both expressed concerns about the possibility of distorting the market through such practices. The DCLG is proposing to draft legislation to clamp down on local authorities buying commercial properties outside their local area.

Eric Hohenstein noted that officers should also consider land swaps with developers and registered housing organisations.

Facilities management contact being in house could provide new opportunities to management cost and bring in new efficiencies.

Use of housing companies to develop private and affordable housing and enhance the use of our community should be explored.

The Committee asked for a timeline when the strategy would be developed.

**Action - A timeline when the strategy would be developed to be provided.**

## **Action by – David Burns**

### **29. BRINGING BACK LIFE TO THE HIGH STREET, STRATEGY TO ATTRACT BUSINESS**

Nicki Burgess, Business Engagement Manager, gave a briefing on how the Council was bringing back life to the high street and the strategies in place to attract businesses. The Council delivers a range of support to high streets through business support and placemaking interventions. A key focus is on the public realm ensuring that it is clean safe, accessible, and attractive.

Regarding the vibrancy and occupancy of Town centres, Councillor Murphy cited King Street as an example of a High street which had a high occupancy rate but was not vibrant as it was filled with many betting, charity and chicken

shops. He asked what can we do to make it more vibrant? Nicki noted that the Council does not have a huge influence over who occupies the shops but we are working with those landlords that engage to improve the quality of shops.

Councillor Vincent noted that the Council has limited resources to invest in high street initiatives. He asked if we had unlimited resources what could we have done? Nicki noted that the future of the high street was changing from retail to leisure focus. The focus could be provision of multi-use space including start up business, community café, business incubator space and leisure space. Mixed development uses would attract more people to the area.

Councillor Johnson noted that the impact of the super cycle highway was missing from the report. Shop keeper usually advocate for parking in front of or near their shops. Officers noted that Waltham Forest introduced a scheme in Walthamstow tagged “Mini-Holland” which encourages walking or cycling within 15 minutes to shops. Evidence has shown that shops have benefited from this initiative through increased footfall.

Eric Hohenstein asked what can the Council do as part of the industrial strategy to attract business to our area. Officers noted that the Council could restrict the number of A2 units through the Local plan. It cannot revoke existing planning permission. Councillor Quigley asked if betting shops required licenses to operate. Officers agreed to check

**Action** – Check if betting shops required special licenses to operate.

#### **Action by Nicki Burgess**

Councillor Johnson asked what does the shop keepers think about the 2-stage financial transaction authentication process soon to be introduced. It was noted that there are some shops which have not embraced technology operating on cash only. Their reaction will depend on their business model.

The Chair thanked the officers for an informative presentation.

### **30. NATIONAL NON DOMESTIC RATE (NNDR)**

Jamie Mullins, Head of Revenues, and Jenny Dixon, Taxation Manager, presented a report on National Non- Domestic Rates (NNDR) known as Business Rates. The Committee noted the NNDR retention scheme which was in operation since April 2018 and the proposed changes from April 2019.

The Committee noted that the local discretionary and small business rate relief schemes benefitted 900 and 1400 businesses respectively. The mandatory relief benefitted properties which are wholly or mainly used for charitable purposes. 25 establishments have benefited from the Pub relief.

The retail discount scheme announced in the October 2018 budget could benefit around 1400 businesses. Councillor Murphy asked if the Council was adversely affected by the relief granted. It was noted that this was funded within the



scheme by the Government. However, if the Council introduced a local discount scheme it would be funded locally.

In response to a question from Eric Hohenstein regarding avoidance, it was noted that those organisations who engage in such practices are within the law. They engaged with the Council by paying their reduced rates bill on time. Until the Government drafts new legislation our hands are tied.

Councillor Johnson about relief on National rail estates let to local businesses. It was noted that once a property was vacant for 3 months TFL claimed the empty property relief. The new occupier would pay the full business rates as relief can only be claimed once.

The Chair asked for a note to be circulated on the checks and balance to safeguard against fraud.

**Action – Note to the committee on the checks and balance to safeguard against fraud.**

**Action by Jamie Mullins, Head of Revenues**

**31. COMMITTEE WORK PROGRAMME**

The work programme was updated.

**32. DATES OF FUTURE MEETINGS**

The following date was noted: -

- Wednesday 27th March 2019

Meeting started: 7.00 pm

Meeting ended: 10.00 am

Chairman .....

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