Department for Levelling Up, Housing and Communities

Local Government Finance Review – London Borough of Bexley

December 2021

Table of contents

1. Executive Summary

This report provides an assessment of the London Borough of Bexley's (the Council) financial management and management of risk, deliverability of savings plans, efficiency in delivering services under financial pressure and the scope for capital receipts from property sales. This report covers how the council is managing the impacts on its financial sustainability of the loss of income and the need to generate savings. The key findings are summarised below.

1.1 Key findings

- The political leadership of the Council has demonstrated that it understands the financial challenges facing the organisation and their commitment to managing the medium-term financial resilience of the organisation. Senior stakeholders have advised they seek to continually improve and learn from other local authorities and recognise that their improvement journey is not yet complete.
- Underlying pressures prior to the pandemic related in particular to demand led services of Adult Social Care, Children's Social Care and Homelessness. These were further impacted by the pandemic, along with additional pressures in relation to council income, in particular from car parking services. How these are being managed beyond the current financial year require further consideration and action.
- The Council recognised the need to address the impact of the pandemic, to maintain a balanced budget for 2020/21 and took various steps to prevent the threat through a mixture of cost control measures, savings and efficiencies, use of reserves, maximising income and grants received, and the potential capitalisation direction.
- Notwithstanding the above, the 2020/21 outturn position was an overspend of £21.9m on service budgets, of which £19.8m related to COVID-19 pressures (increased expenditure and reduction in sales, fees and charges), representing 15% of planned Directorate budget spend. However, the net General Fund outturn for the year was a balanced budget due principally to the receipt of COVID-19 related grants from government.
- For the year 2020/21 a total of £6m savings were planned, of which £4.3m (72%) were achieved, with £1.5m (25%) not achieved due to the impact of the pandemic.
- The Council set a balanced budget for 2021/22 and the current MTFS assumes a balanced budget for 2022/23 with a budget gap of £6.1m in 2023/24 rising to £14.7m in 2025/26. The MTFS includes £8.1m of approved growth funding for directorate services, including for demographic pressures. Underlying budget pressures remain and require further management in the short-to-medium term, in order that costs stay within growth assumptions. Undertaking financial benchmarking analysis on targeted services to identify further savings and efficiencies will need to form part of managing medium-term financial sustainability.
- Achieving a balanced budget outturn for 2021/22 is dependent on realising planned savings of £12.8m which the Council regularly monitors using a RAG rating approach. At the time of our review the Council was confident in delivering £11.6m (91%) of these savings, with the savings at risk predominantly relating to failure to achieve planned additional car parking income (£1m). The Council has taken some difficult decisions in agreeing to these savings, including making £7.9m in staffing reductions. At the time of this review 165 FTE had been realised from a total of 206 FTE reductions planned.
- Housing Services has a recent track record of poor financial management and overspends, with an Improvement Plan now in place. RO data for 2019/20 highlights that, pre-pandemic, Bexley had higher per head spend on housing services and environmental and regulatory services in particular, but also on central services compared with its statistical neighbours. These are areas for the authority to consider further service efficiencies where plans to do so are not already in place.
- Bexley has the second lowest level of general fund reserves when compared to its statistical nearest neighbours. Whilst a new policy has been introduced to not use reserves to set a balanced budget, and reserve levels have increased for 2021/22, reserve levels are a significant risk for the medium-term financial sustainability of the Council and a clearer plan needs to be developed on how it will increase and maintain reserve levels, as part of the Section 25 Statement when the 2022/23 budget is set.

- The Council has a relatively new Corporate Leadership Team (CLT) and it is clear that since the current Chief Executive started in role, she has driven a culture of improvement, including risk management, performance management and budget management. Areas of improvement are ongoing and, as a consequence, there is a considerable amount of change activity within the Council.
- The Section 151 Officer, supported by his Deputy, has also led on corporate improvement, which includes the insourcing of the finance function from oneSource shared service arrangement, and creating a Financial Improvement Plan to ensure the effectiveness of financial systems, controls and processes, alongside clarity on roles and responsibilities and building an effective finance function. The changes set out in this Plan – which was introduced in August 2020 with a delivery timescale of 18 months - have not yet been fully implemented and it will be critical that these changes become embedded as soon as possible to ensure robust financial planning and financial management
- Since the insourcing from oneSource in August 2020, the Council has introduced a new finance structure. At the time of this review, the Council was still recruiting to this new structure, with 20 of 34 posts vacant, utilising interims in key roles, noting that some appointments had been made with individuals not yet in post. Like some other councils, Bexley has struggled to recruit and retain key finance staff.
- The Council has improved its focus and approach to strategic risk management following the arrival of the current Chief Executive, including risk management of MTFS assumptions. These include not implementing the savings programme, not being able to control budget pressures in particular demand management, and ongoing COVID-19 impacts.
- The Council has limited asset disposal plans due to the majority of appropriate assets having already been sold. The Council is looking to future borrowing to replace capital receipts in funding the capital programme. This will be either from within approved borrowing limits or by increasing borrowing limits under the CIPFA Prudential code if this is affordable.
- The Council is currently commissioning a stock condition survey and needs to improve its overall approach to asset management. The stock condition survey may identify further asset liabilities for the Council.
- Capital investment has taken on increased importance for the Council as other resources become scarce. The capital strategy notes that the delivery of income streams due from the series of regeneration led projects for housing development are crucial and underpin the Council's ability to meet the cost of this capital investment and generate future revenue returns to support the delivery of the MTFS. Failure to deliver the capital programme could result in significant financial pressures for the council and therefore robust programme and project governance will be essential.
- The Council has not utilised the approved £3.8m capitalisation for 2020/21. The Council has not budgeted to use any capitalisation this financial year due to the success of measures already implemented, but this is a position the Council continues to monitor. The extent to which the capitalisation applied for by the Council for use in 2021/22 is still to be agreed between the Council and DLUHC.

1.2 Key conclusions

- The Council has been proactive in managing the unprecedented financial pressures that arose because of the loss of income and additional spending pressures brought about by the pandemic.
- Bexley achieved a balanced budget outturn in 2020/21 which was only possible due to COVID-19 funding received from government to fund additional expenditure incurred and the loss of planned income, alongside taking action to control in-year spending. Its short-term financial sustainability is dependent on delivering planned savings and implementing key improvement projects, in particular in relation to finance and to housing.
- There are still risks attached to the delivery of the Medium-Term Financial Strategy in particular managing the budget gap from 2023/24 onwards and maintaining an appropriate level of reserves as recommended in the Section 151 Officer's Section 25 statement when each annual budget is set.
- Long term financial sustainability depends on the Council successfully concluding and embedding the changes which are being implemented, continuing to control costs and manage demand, delivering its growth plans, and identifying the savings required to manage forecast budget gaps in future years.

1.3 Recommendations

The key recommendations arising from our review are summarised below.

No.	Recommendation description	Proposed owner	Timescale
Assets			
1.1	There should be review of how asset sale prices are arrived at and whether professional market estimates are used as underestimating asset values could constrain ambition about the price to be achieved.	S151	6 months
1.2	The Council should be more strategic in asset management, to provide greater insight into its capital programme ambitions, the associated liabilities, and how it will fund them in the future. This is recognised by stakeholders and the plans to implement the Corporate Landlord model will bring more focus to this area. Specifically the out of date Asset Management Plan needs updating and should link to other Corporate Plans and the MTFS.	S151	6 months
1.3	Close management of rental yield from commercial assets is required so any adverse market conditions are highlighted in advance in order for appropriate remedial action to be taken.	S151	Ongoing
1.4	Improve understanding of what revenue savings are achieved when an asset has been disposed of so that budget savings are not identified as part of the overall asset rationalisation programme.	S151	1 month
1.5	Review office accommodation strategy given impact of the pandemic on working patterns.	S151	6 months
1.6	Ensure that robust project and programme management arrangements are in place to deliver the capital programme so that revenue budget pressures are not exacerbated.	CLT	Ongoing
1.7	Continue to monitor the affordability of borrowing in terms of its revenue implications.	S151	Ongoing
1.8	Monitor the capitalisation of revenue expenditure to ensure this stays within the regulatory framework.	S151	Ongoing
Capitalisation			
2.1	The Council should consider whether there remains a need for EFS and update DLUHC	Council	2 months
Commercial / Borrowing			
3.1	Closely monitor the activity of BexleyCo to ensure it is in line with its business plan expectations.	Council	Ongoing
3.2	Clear definition and understanding of commercial and consider developing a corporate commercial strategy.	CLT	Six Months
3.3	Ensure effective programme and project management of the capital programme, in particular those investments where income generation are critical to delivering the MTFS.	CLT	Ongoing
Governance and Oversight			
4.1	The Council should consider separating the Audit Committee from the business of the General Purposes Committee to ensure appropriate and dedicated focus on internal and	Council	Six months

	external audit findings, monitoring actions and other key finance related matters.		
4.2	The Council to request an independent Finance Peer Review to support continuous improvement and learning culture	Council	Six months
4.3	Introduce a structured training programme for elected members on finance related issues (eg financial planning, financial management, financial control, the financial system)	S151	Six months
4.4	Update the Corporate Plan to reflect the impact of COVID-19 on council priorities	Council	Nine months
4.5	Prioritise corporate effort to implement the Financial Improvement Plan to timescale and ensure changes are effectively embedded, including recruiting to the new structure and fully implementing the new financial system, with a recommended independent review of progress in six months' time.	CLT	Nine months
Reserves			
5.1	Develop a reserve replenishment strategy to grow its reserves to a sustainable level, considering different scenarios in relation to government funding levels and be reflected in the Section 25 Statement.	S151	Three months
Savings / Efficiencies			
6.1	Undertake a formal benchmark analysis and review of service costs against Bexley's local authority statistical neighbours in particular Housing and Environmental and Regulatory Services to identify areas for potential further efficiency and improvement.	CLT	Three months
6.2	A forensic 'deep dive' is undertaken across ASC in order to identify and model a robust savings plan which focuses on managing demand and cost. This should also incorporate a comprehensive analysis of future accommodation requirements.	DAS	Three months
6.3	Current Children's Social Care work to identify and agree savings is accelerated and modelled over the next three years.	DCS	Three months
6.4	Further develop the plan, working with partners, on how to address the DSG deficit, with particular consideration around inclusion and reconfiguration of provision for SEN.	DCS	Three months
6.5	Continue to actively monitor the savings programme, paying particular attention to those that require sustained corporate leadership and which should not be left to individual services to deliver.	CLT	Ongoing
6.6	Develop a savings plan which aligns with the whole MTFS period, which identifies as early as possible the savings that are expected to contribute to filling the £14m spending gap in the MTFS, utilising scenario analysis to manage medium-term funding uncertainty.	CLT	Three Months
6.7	Complete the implementation of the Housing Improvement Programme and associated Housing Overspend Action Plan.	CLT	Six Months

2. Purpose of this report

2.1 Introduction

The Department for Levelling Up, Housing and Communities (DLUHC) confirmed on 20 February 2021 approval of exceptional finance support (EFS) to LB Bexley (the Council) of a total not exceeding £3.87m for the financial year 2020/21. One of the conditions of the Council receiving EFS was an independent review focussed on its financial position, with the intention that DLUHC will agree a plan with the Council to address any recommendations. The purpose of this report is:

- To provide an assessment of London Borough of Bexley's financial management and management of risk, deliverability of savings plans, and efficiency in delivering services.
- To provide assurance that as a local authority that received Exceptional Financial Support from the Department in the financial years 2020/21 and has applied for further support for 2021/22, the council has taken appropriate steps to improve their financial sustainability.
- To provide support to Bexley in the form of recommendations and performance requirements to ensure they achieve this objective.

2.2 Methods used to gather data

Evidence was collected by CIPFA with support of Grant Thornton and PeopleToo between 15th July and 5nd August which involved the following methods:

- Semi-structured interviews (Appendix 1). On-line interviews were conducted with key officers including the CEO, Section 151 Officer and other senior officers, the Leader of the Council and Cabinet Member with Resources portfolio, and with external and internal audit.
- Document review. The Council provided documents and working papers on key financial and non-financial issues with a particular focus on those related to budget setting, financial management and planning. Documents were also obtained via other sources, including those provided by DLUHC (Appendix 2)
- Benchmarking. A comparison of Bexley against other statistical neighbour Councils in particular in relation to local government finance and place-based socio-economic data (selected content has been used in this report, the full data pack is available separately if required).
- Analysis involved a triangulation of data from the different sources. Key information and conclusions have been discussed with the Section 151 Officer (the Chief Executive Officer being on leave).

This report is based on our findings from the time that the evidence was collected.

2.3 Scope restrictions

This report is based on the fieldwork completed within the time frame for the review. It was not a comprehensive audit of the Council's finances. As a consequence the conclusions do not constitute an opinion on the status of the Council's financial accounts.

3. Background

3.1 Bexley and its local context

The London Borough of Bexley was formed in 1965 and is located in south-east London, forming part of Outer London. The borough is bordered to the north by the river Thames, to the west by Royal Borough of Greenwich, to the south by London Borough of Bromley, and to the east by Dartford Borough Council.

The main settlements in the borough are Sidcup, Erith, Bexleyheath, Crayford, Welling, Old Bexley and Thamesmead (the latter straddling the border with Royal Borough of Greenwich). The borough is within the Thames Gateway, an area designated as a national priority for urban regeneration. Thames Gateway covers the sub-region that borders the river Thames in north east and south east London, Kent and Essex.

Bexley has three railway lines but has no Underground lines or other Transport for London networks. Crossrail services may in due course serve Abbey Wood station and there are various proposals to extend either the DLR or London Overground to Thamesmead. There are currently no proposals to extend the London Underground to the borough, with the nearest current station being in north Greenwich.

The Borough has a population of 249,300 and has higher than average proportions of residents aged 45-64 and 65 and over, the third highest proportion in London. This provides context to demand led pressures in relation to adult social care. Other key socio-economic indicators, which impact on service demand and council priorities, are:

- Bexley has relatively low levels of deprivation compared to other London authorities with all but one of the domains of deprivation below the 25th percentile. Of the London boroughs, Bexley is ranked the 4th highest within the Education, Skills and Training domain.
- From October 2019 to December 2020 average unemployment rates within Bexley have increased from 4.51% to 4.78%, compared to an increase in from 4.03% to 4.75% for England.
- Bexley is ranked 21 out of 32 London Boroughs with a GVA per head of £22.9. Bexley has experienced GVA per head increase of £1.9 (2014-18).

3.2 Bexley Council and how it operates

The Council is led by a Conservative majority administration which has been in control of the Council since 2006 with the current Leader of the Council, Cllr Teresa O'Neill, OBE, being in this role since 2008. There are 17 wards, with each ward electing two or three councillors. Currently council membership is made up of representatives of the Conservative Party (34), the Labour Party (9) with two non-aligned independents. The last local elections took place in May 2018. Bexley operates a Cabinet system formed from members of the majority Conservative party.

The Council has a Budget Overview and Scrutiny Committee and the Audit Committee is consolidated with the General Purposes Committee. The Council should consider separating the Audit Committee to ensure appropriate time and focus is spent on internal and external audit reports.

We have been advised that elected members receive training on financial issues as part of their induction and thereafter there is less structure to training provision. The Council should introduce a more structured training programme for elected members on key areas of finance.

The Council's Corporate Leadership Team (CLT) comprises the Chief Executive (Head of Paid Service) and the following officers:

- Director of Finance and Corporate Services (the Section 151 Officer)
- Director of Adult Social Care and Health / CCG Borough Director
- Director of Children's Services
- Director of Place
- Deputy Director of Legal and Democratic Services (the Monitoring Officer)

Whilst there has been relative stability in the political leadership of the Council, CLT has seen more recent changes:

- Chief Executive, Jackie Belton, joined the Council in this role in April 2019
- Director of Finance and Corporate Services has been in role since January 2019, having previously been on secondment from oneSource (the shared service between the Council, Newham and Havering) from September 2018 and prior to this the Director of Finance of oneSource for 18 months.
- Director of Place joined the council in this role in October 2020
- Director of Children's Services joined the council in this role in December 2019, having held a consultancy role with the council prior to this
- Director of Adult Social Care and Health has been in role since January 2017 and is the longest serving member of CLT. In July 2020 he was appointed to the additional role of Borough Director for the local CCG.
- The Monitoring Officer during the time of our review had been in role since October 2020, has worked for the Council since 2004 and has held the Monitoring Officer role previously. The

Monitoring Officer reports to the Section 151 Officer and is a member of CLT. We note that the Monitoring Officer subsequently retired, with a new person in this role from October 2021.

The Deputy Section 151 Officer has been in role since September 2020, having previously held an interim position.

We were advised by senior stakeholders that the Council looks to learn from other authorities as part of their ongoing drive for improvement. We note that the Council does not appear to have requested an independent peer review in recent years, and recommend the Council requests an independent finance peer review to support its approach to continuous improvement.

3.3 Corporate priorities

In 2017, the Council agreed a corporate plan called #BrilliantBexley Shaping our future together 2017 to 2025. The plan is underpinned by five strategic priorities:

1. Growth that benefits all
2. Clean and green local places
3. Strong and resilient communities and families
4. Living well
5. Innovation and self-sufficiency

Together, these objectives formed the Council's response to the financial climate for the public sector at the time it was approved when the Council planned to become financially 'self-sufficient' and operate without government grant from 2020.

The Plan itself has several years yet to run and the council may wish to review it in the light of the implications relating to the pandemic, including the Council's ambition to become financially self-sufficient.

3.4 Bexley funding base

Over the four financial years to 2019/20 the Council increased Council Tax and the Social Care Precept by the maximum amounts allowed. Prior to that the Council implemented a freeze on Council Tax and reduced reserves. The Council has had a below average growth in its Council Tax base compared to other London Boroughs which means that any changes in demand for services such as social care or homelessness which are due to changes within the population rather than by growth in households fall on a proportionally lower tax base. The Council Tax base for 2021/22 was 81,741 properties with the majority (88%) in bands B to E.

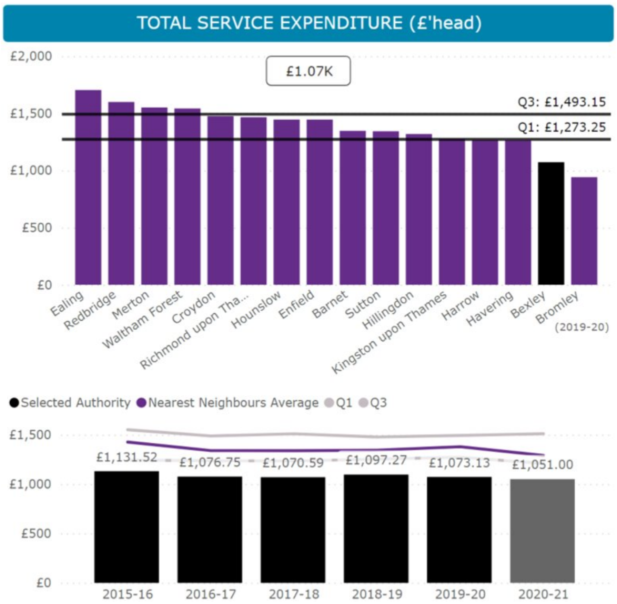
The Council has no housing stock and is prioritising growth to increase housing supply in the borough, working with developers and registered social housing providers, along with its own development company (BexleyCo Ltd). The Local Plan is currently out to consultation and key growth dependencies include securing infrastructure investment and financing. Whilst the key political leadership of the Council recognises the importance of growth, wider member engagement is taking place to ensure clarity and consistency on what "good growth" means for the borough.

4.The current financial position

In this section we consider Bexley's current financial position. The council's position and financial performance before the pandemic and the extent to which it was already under financial pressure. We then consider the factors that led to the capitalisation request and the steps the council has taken to stabilise its financial position.

4.1 Past financial performance

Over the four years to 2019/20 spending was close to budget with the exception of 2019/20. The primary cause of this overspend related to homelessness. It should be noted that the Council does not have any housing stock.



For 2019/20 the year prior to the pandemic Bexley budgeted for a total service spend of £266m. This puts it as the second lowest spending authority compared to its near statistical neighbours, and this is the same for total service expenditure per head, at £1,070. Both indicators have been below the nearest neighbour average since at least 2015/16.

A clear policy was approved by the Council for both the 2020/21 and 2021/22 budgets to achieve a balanced budget and meet the requirements of the Local Government Finance Act 2002 and to set a medium-term financial plan demonstrating how that position would be maintained up until 2022/23.

During 2020/21 the council had an overspend on its General Fund of £21.900m, of which £19.794m related to COVID-19 related pressures. The outturn was an improvement of £1.466m on the forecast outturn reported at the end of February 2021. The net position was a balanced budget, in particular due to the government COVID-19 related grants received during the year.

On 3 March 2021 the Council approved a General Fund budget of £177.264m for 2021/22 including provision of £5.177m contingency. The Council's capital programme between 2020/21 and 2024/25 totals £213.038m, with 16.6% being funded from external sources and capital receipts, with the amount of borrowing totalling £177.710m.

The key challenges facing the Council are:

- The uncertainty of medium-term revenue funding
- Managing the ongoing impact of COVID-19 on communities, businesses, services, and staff, including the financial implications on revenue expenditure and income and changing patterns of demand for office accommodation.
- Delivering the planned savings programme to ensure spending during 2021/22 is within budget.
- Identifying, evaluating and approving savings to manage the MTFS budget gap in future years.
- Continuing to deliver services to the most vulnerable, in particular the demand led services of social care and homelessness in the context of increasing demand, complexity of need, and rising costs.
- Concluding the delivery of key service improvement programmes, in particular those relating to Finance and Housing Services.
- Protecting and growing the level of General Fund reserves
- Delivering growth plans to increase the tax base of the Council.

These challenges are what we would expect to see for many local authorities. Those that are specific to the Council relate to the service improvement programmes for Housing and Finance, and it will be critical that these are delivered to planned timescales and expectations.

4.2 Why did the council apply for Exceptional Financial Support (EFS)

During the course of our review we have sought to understand why the Council applied for EFS and the Council's plans on utilising it. We have been advised that the reason for applying for EFS was due to the level of uncertainty in Autumn 2020 in particular the impact of COVID-19 on the revenue budget and uncertainty on the level of funding that would be provided by the government to support the financial impact of the pandemic. The initial application sought £15m support to forecast budget pressures in 2020/21 and 2021/22, £11m of which related to COVID-19 pressures. The application was reduced to £12m following initial dialogue with DLUHC.

The initial application set out the following pressures:

Financial Year 2020/21

- £3.517m of unfunded COVID-19 Grant
- £2.700m for Temporary Accommodation

Financial Year 2021/22

- £6.000m Collection Fund
- £2.783m for further unfunded COVID-19 exposure

Key Council stakeholders have described their consideration in applying for EFS as part of an overall prudent approach to financial management. Specific local circumstances noted were a relatively low level of reserves, the relatively small size of the council compared to other London Boroughs and its ability to withstand the financial impacts of COVID-19, learning from Public Interest Reports that had recently been issued in relation to other councils, and guidance received from the Council's external auditors.

At the time of the application in October 2020 the Council was forecasting an unmanaged in-year General Fund budget pressure for 2020/21 of £7.223m with £3.517m of this relating to COVID-19 related pressures. The Collection Fund was forecast a deficit at year end of £9m (whilst councils could manage this deficit across three years), there was a residual risk on whether the collection rate would deteriorate further, or if 2020-21 arrears would be recovered in 2021/22.

The Council did not utilise EFS during 2020/21 due to a better than expected outturn position, which in large part was due to higher than anticipated one-off grant funding from government in relation to COVID-19 which had not formed part of the Autumn 2020 forecast. The Council has not budgeted its use in 2021-22 and this position is being monitored, with an update planned to the November 2021 MTFS update to Public Cabinet, when there is hoped to be greater clarity on ongoing COVID-19 pressures. From conversations with key stakeholders at the Council we understand that, whilst the Council does not seek to draw down on EFS during 2021-22 this has not been completely ruled out, and it is seen as a "safety net" or "contingency". We recommend the Council reviews its need for EFS and updates DLUHC on the outcome of this review.

4.3 Projected budget position for the medium term

The Council's MTFS, as reported to Public Cabinet on 27 July 2021, including reference to the position reported to Cabinet in July 2020 and February 2021, is as follows:

	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
Budget Gap Reported to Cabinet July 2020	**13.250**	**18.436**	**26.162**	**34.626**	**n/a**
Budget Gap reported to Cabinet Feb 2021		**1.433**	**7.682**	**13.994**	**15.654**
Change in assumptions:					
Income from Sales, Fees and Charges	n/a	0.500	0.510	0.520	0.531
Pay inflation adjustment	n/a	- 0.699	- 0.720	- 0.741	-0.764
Bexley Co. Ltd Dividend	n/a	- 0.534	- 0.608	- 0.608	0
Capital Programme Review Financing	n/a	- 0.200	- 0.200	- 0.200	-0.2
General Efficiencies	n/a	- 0.500	- 0.515	- 0.531	-0.547
Revised budget gap reported to Cabinet July 2021		**-**	**6.149**	**12.434**	**14.674**

	2022/23 £'m	2023/24 £'m	2024/25 £'m	2025/26 £'m
Adult Social Care Demographic Changes	0.400	0.500	0.600	0.700
Children Social Care Demographic Changes	0.700	1.400	2.100	2.800
SEN Transport Demand	0.300	0.600	-	-
Temporary Accommodation	0.960	2.030	2.954	4.418
Business Rates	0.050	0.100	0.150	0.200
Total Growth	2.410	4.630	5.804	8.118

The current MTFS considers the risk environment over the medium-term which is reflected by changes in key assumptions such as those relating to sales, fees and charges income. This recognises the expectations of income levels as the Council recovers from the impacts of the pandemic. More generally, the MTFS provides £8.118m of approved growth funding for directorate services over the medium term as set out in the table to the left, to reflect forecasted levels of demand.

The MTFS notes that there is a risk that the funding allocated for growth may not be sufficient for 2022/23 given the unprecedented impact of the pandemic and the uncertainty created. The planning assumptions of the MTFS are kept under review, and they are also stress tested, with the results shared and audited by the Council's external auditors. Detailed modelling and "deep dive" analysis is to be completed on the following service areas over Summer 2021: Adult Social Care; Children Social Care; Temporary Accommodation Homelessness; Leisure Services; Waste Services; Parking Services; and Council Tax Reduction Scheme. This analysis was not concluded at the time of our review.

Looking at the two main demand led services of adults and children's social care:

Adult Social Care

For 2020-21 Adult Social Care had a net budget of £50.03m and an outturn of £52.9m. The overspend was driven by the discharge pathway and financial support from the NHS reducing. Pressure is increasing to discharge from hospital quicker and individuals are being discharged home with high packages of care. Providers are also pulling back the impact of vacancies by charging higher rates and individuals have been discharged by health into care homes the Council would not normally use, and once 6 weeks (reducing to 4 weeks in September 2021) has passed the cost is borne by the Council.

2021/22 Projected (taken from Budget Monitoring Report Period 2)

	Net Budget '000	Forecast Outturn P2 '000	Covid 19 '000	Non-Covid '000
Adult Services	£48.6m	£54.4m	£4.9m	£0.811

The current assumption made by the Council is that although the government continues to support local government this is time limited and the Council cannot assume all additional expenditure will be covered by grants. Income from COVID-19 grants to support additional expenditure around placements is only factored until September 2021. Forecasting an overspend in community base services (£3.2m) and residential and nursing (£3.4m) mitigated by NHS income of £1.5m.

£1.5m has been added to the projections in anticipation of improvements in income. We have been advised that there has been work around managing debt but this was treated as a one off exercise which they will now have to repeat. A third of clients are self-funders yet the forecast this year is £1m lower than previously which requires further investigation. The above does also not include any draw down monies which are held centrally for demographic pressures.

Population projections show a continued increase in the 70+ population and with residential care costs increasing and no community-based alternatives such as extra care in place, this could be a significant risk to the ASC budget going forward. In the short term there is also pressure from reducing COVID-19 monies to meet the increased cost in residential placements as it will be difficult to move these individuals now they have been placed for a number of months/ weeks.

The LG Futures in their Financial Intelligence Toolkit report for Adult Social Care in 2019/20, identified Bexley's 2019/20 budgeted expenditure per adult resident as 14.5% lower than their nearest neighbours and 26% lower than the England average. The Council's spend per ASC client was 15.6% lower than comparators and 17.6% lower than the England average. The lack of future savings plans is a risk given the pressures identified above. We have been advised that the planned "deep dive" will be focusing on COVID-19 expenditure and what can stop, as opposed to further efficiencies. We would recommend that a forensic 'deep dive' is undertaken across the Service in order to identify and model a robust savings plan which focuses on managing demand and cost moving forward. This should also incorporate a comprehensive analysis of future accommodation requirements.

The Council are reviewing the detailed modelling in its MTFS, as reported to Public Cabinet in July 2021. This work has been carried out over the summer to assess if there are any further potential pressures over and above the demographic and inflation budget built into the MTFS that may need to be considered from 2022/23 onwards. The review is also looking at the nature of any pressures and whether they are temporary and expected to recover or more permanent.

Children's Social Care

In 2020-21 Children's Social Care had a net budget of £32.7m and an outturn of £34.3m.

Key areas of overspend related to:

- Placements - £1.2m
- CP and Family service - £826k
- SEN Transport £ 519k

The main reason for the overspend was COVID-19 related. The service suffered a spike in demand in September 2020 when the schools returned, which then flatlined and saw an increase in the number of families that were previously unknown referred at the front door. The Service has temporarily increased social workers at the front door to manage this spike in demand. Without the same levels of COVID-19 monies not sure how this will be funded with resources still in place going into this financial year. Transport also overspent due to increased cost as a resulting of social distancing requirements.

2021/22 Projected (taken from Budget Monitoring Report Period 2)

	Net Budget '000	**Forecast Outturn P2 '000**	**Covid 19 '000**	**Non-Covid '000**
Children Services	£28.991	£31,762	£2.500	£0.271
Education	£4.833	£5.835	£0.638	£0.364
Total	£33.824	£37.596	£3.138	£0.634

The projected overspend for 2021-22 relates primarily to specialist placements made, and during 2020-21 there was an increase in numbers in residential placements, and the cost of residential. These increases have continued into 2021-22. The overspend in Education relates to SEN Transport (£439k) and the Learning and Enterprise College (£500k).

Whilst plans are in place to try and address demand and develop alternatives to high-cost residential placements, there appears to be a pressure now on placement expenditure and finding alternative suitable provision will take time. Therefore, without Covid monies this will be a continued pressure on the placement budget is the next 12 months and beyond.

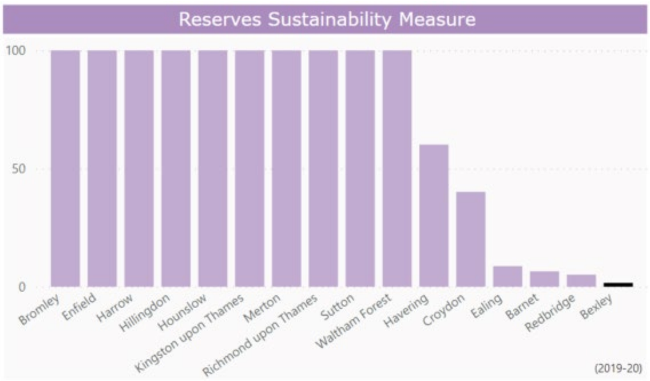
The lack of future savings is a risk, with work starting only now on future years there will be a lead in time in terms of delivery and full year effect. We would therefore recommend that this work is accelerated, and savings modelled over the next 3 years.

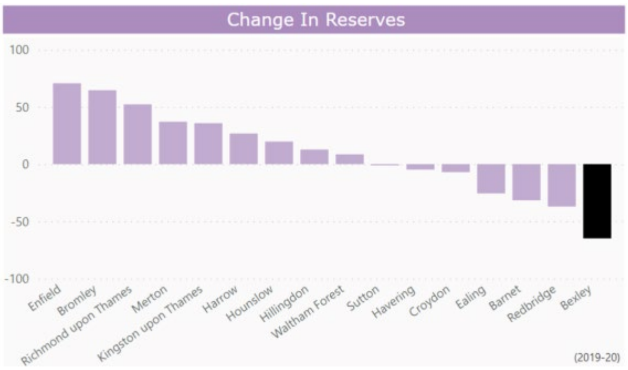
The DSG deficit is also a major risk. Whilst a plan for recovery is in place this will not fully recover the deficit. There is a view that Government will have to ‘step in’ to resolve this issue nationally. However, this cannot be relied upon, and work needs to take place to further develop the plan working partners, with particular consideration to inclusion and reconfiguration of provision for SEN based on both current and future requirements.

4.4 Financial resilience

The Council’s external auditors, EY, as part of their most recent external audit relating to the year 2019/20 provided a qualified Value for Money conclusion relating to financial resilience. In particular they noted that General Fund reserve level was impacted by an overspend of £2.6m of which of £1.6m was unforeseen on housing services (which is covered in more detail later in section 5.2). The external auditors highlighted the Council’s low level of reserves and concerns over how these can be replenished given a significant budget gap over the medium term.

Bexley had the second lowest level of reserves compared to its statistical nearest neighbours prior to the pandemic, when reviewing the most recently available national data set for 2019/20. When considering the ratio between the current level of reserves and the average change in reserves in each of the past three years (the reserves sustainability measure) Bexley had the lowest level compared to its statistical nearest neighbours. Over the three-year period to 2019/20 the Council saw the most significant depletion of reserves (total usable excluding public health and schools) in (change in reserves indicator) compared to its nearest neighbours, as reserves were used to set a balanced budget and to manage in-year budget pressures. The reserves sustainability measure indicates that if the Council follows its recent trajectory to 2019/20, reserves would be fully depleted during 2021/22.





However, the Council’s General Fund reserve was increased by £3m for 2021/22. £2m of this is planned to offset the Discretionary Schools Grant (DSG) high needs deficit and associated uncertainty over the duration of the statutory override, and £1m is for unplanned pressures. The Section 151 officer has moved the Council away from using reserves to help set a balanced budget, with a strategy to only use reserves to manage in-year pressures that cannot be controlled. This approach has recently been introduced and the Council should enhance it by developing a reserve replenishment strategy to grow to a sustainable level and reflect different scenarios in relation to levels of revenue funding.

Current liabilities

All liabilities have been assessed by the Council. A detailed testing of the accounts does not form part of the scope of our work, and this will be undertaken by the Council’s external auditors. The 2019/20 audit of financial statements was unqualified indicating, at that time, there are assurances on the accuracy of current liabilities as at 31 March 2020.

Does the Council understand its potential liabilities within Council companies?

The Council has two locally authority controlled companies:

Engine House Bexley Limited (Formerly Thames Innovation Centre -TIC) is a not-for-profit Council controlled company that commenced trading at the end of 2006. The Council provided a loan to TIC of £450,000 as at 31 March 2018 under a loan agreement dated 14th March 2007. No interest will be charged within the initial ten-year period from the date of the agreement. Under a service level agreement dated 29th March 2007, the Council is entitled to reasonable free use of TIC's facilities. There is a further loan agreement dated 10th February 2010 between the London Borough of Bexley and TIC, providing up to £60,000 for TIC to undertake works to convert two existing offices. As at 31st March 2021 the amounts outstanding is £450,000 plus accrued interest of £42,076.

BexleyCo Limited is a development and regeneration company that was incorporated by the Council in June 2017. It is a company limited by shares with the Council as sole shareholder. Its primary activity will contribute to the Councils regeneration and commercialism agenda by purchasing and developing real estate. The latest draft accounts for BexleyCo as at 31 March 2021, showed a net loss of £218,259 (£613.932 loss in 2019/20) and a net liability balance of £6.281m (£5.320m in 2019/20) from a £120m Development Facility with the Council. The Company has a business plan which is agreed annually with the Council. The MTFS has not assumed a dividend in prior years, with the first dividend from the Company to the Council expected in 2022/23 of £210k and the MTFS assumes this is apportioned across three years, with the next dividend anticipated in 2024/25.

These two companies carry financial risk for the Council, including their ability to service the loan agreements with the Council, and in the case of BexleyCo, its ability to provide forecast dividends. The Council understands these risks and, considering the net loss in 2019/20, is apportioning the BexleyCo dividend across three years of the MTFS. BexleyCo's draw down against the loan facility will become increasing significant as it increases its planned development activity, and its ability to service this debt will need to be carefully monitored by the Council. More generally, the Council should closely monitor the performance of BexleyCo against its business plan targets and understand the impact of any changes on the Council, in particular the financial impacts, and take action to address these changes.

In addition, the council also has a Public Private Partnership arrangement with a leisure services provider. The complexities of this deal were highlighted when, during the pandemic, significant cost fell to the Council. This is an area that is subject to an internal deep dive review.

What are the Councils risk management arrangements to identify and manage unqualified financial risks?

The Council historically has had a low risk appetite for commercial activity and the overall approach to strategic risk management has improved following the arrival of the current Chief Executive. This includes greater detail in and visibility of the strategic risk register, stronger alignment with departmental risk registers, and ensuring risks are integral to decision making. We note that the Council's reserve levels and asset portfolio are limiting factors on commercial activity. The Council's historic low risk appetite to commercial activity means that it has not been exposed to the risks that councils with different risk profiles have experienced during the impact of EU exit and the pandemic.

Via interviews we were advised that there is no generally accepted definition of what commercial activity means for the Council, resulting in a lack of consistency and clarity when this is being discussed. The Council should consider defining and communicating what is meant by commercial activity and further consider this forming part of a commercial strategy.

What is the extent of the Councils long-term liabilities?

The value of the Council's long-term liabilities, as per the draft 2020-21 Statement of Accounts totalled £452.333m:

31-Mar-20 £'000		Notes	31-Mar-21 £'000
(2,188)	Long-Term Provisions	23	(1,330)
(223,051)	Long Term Borrowing	18	(223,043)
(29,495)	Other Long-Term Liabilities	34	(30,345)
(167,053)	Pension Liabilities	41	(191,749)
(6,457)	Grants Receipts in Advance - Capital	13	(5,866)
(428,244)	**Long Term Liabilities**		**(452,333)**

The Council has access to significant cash flow, supplemented by Public Works Loans Board and money market borrowing. The Council also sets limits on the proportion of its fixed rate borrowing during specified periods, to ensure that not more than 15% of loans are due to mature within any one year. These are in line with Prudential Indicator requirements.

The Council aims to mitigate the risk of interest rate increases through early repayment of loans where possible and favorable and the treasury management team monitor interest rate exposure which feeds into the budget setting. As with any council borrowing, interest rate fluctuations over the medium term remains a risk.

4.5 Efficiency of service delivery

Revenue Outturn (RO) data for 2019/20, the most recent year available nationally, highlights that Bexley has a significantly higher per capita service spend than its statistical nearest neighbours for the following service areas:

- Housing Services
- Environmental and Regulatory Services
- Central Services

Housing and Environmental and Regulatory Services were the largest per capita spend compared to statistical nearest neighbours, with both being above the average since at least 2015/16. Pre-pandemic these areas appeared to have scope for service improvement and efficiency.

A Housing Improvement Plan and Housing Overspend Action Plan are now in place which seek to manage efficiency of service delivery for this service area, and a new Housing Strategy was introduced in early 2021 providing greater strategic clarity. A Finance Improvement Plan is in place in relation to this component of Central Services following the insourcing of finance functions in August 2020. Environmental and Regulatory services include environmental health, trading standards, waste collection and disposal, recycling and street cleansing. The refuse and recycling is currently outsourced and was being re-tendered at the time of our review.

The Council is currently undertaking “deep dive” reviews in specific service areas to forecast future demand and expenditure and to identify further efficiency and savings opportunities. These services are: Adult Social Care; Children Social Care; Temporary Accommodation; Leisure Services; Waste Services; Parking Services; and Council Tax Reduction Scheme. We note that these reviews had not concluded at the time of our review and we recommend that the Council should undertake a formal benchmark analysis and review of service costs against Bexley’s local authority statistical neighbours to identify areas for potential further efficiency and improvement and where appropriate widen the scope of the deep dive areas and where no service improvement plans are currently in place.

5. Authority’s approach to financial management

5.1 Background

The Corporate Leadership Team put in place expenditure controls in 2019/20, these were further developed during 2020/21 and continue in the 2021/22 financial year. The controls include:

- All establishment changes, permissions to recruit permanently (excluding Social Workers) or agency staff including variations to contracts being considered by the Corporate Leadership Team.
- A directive to all managers that all non-essential expenditure must cease, including a review of all additional payments made to staff.

- A directive that all contracts need to be reviewed to identify opportunities to reduce expenditure, maximise outcomes within the current arrangement or consider a change in scope of service provision to provide efficiencies.
- Mitigating actions being identified by Chief Officers to reduce overspends and bring their budgets back in line with the budget allocated.
- Review of the capital programme to either delete, stop, reduce schemes or defer them into future years. These were agreed by Public Cabinet in July 2020.
- Directors are meeting monthly with Cabinet Members reviewing in year, Medium Term Financial Strategy planning assumptions, saving opportunities, pressures and other financial matters.
- Weekly finance meetings with the Leader, Cabinet Member for Resources, Chief Executive and Director of Finance & Corporate Services are taking place to review the Council's financial position.
- The budget monitoring report is being issued monthly to Leader and Cabinet and then circulated to all Members in line with agreed protocol and reported to Public Cabinet more regularly.
- The corporate risk register is being monitored by the General Purposes & Audit Committee.

We have reviewed the Council's financial regulations and associated operational procures which are appropriate. The Annual Governance Statement is compliant with the CIPFA/SOLACE framework, and the Council has approved and adopted a constitution and code of corporate governance which are consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government.

5.2 Adequacy of existing financial management practices

Key context for Bexley is the recent insourcing of financial services, and the associated financial improvement plan.

Financial Services

In April 2016 Bexley joined oneSource, a shared service vehicle originally established by the London Boroughs of Havering and Newham under a Joint Committee for the provision of various back-office services. OneSource delivered Financial Services to Bexley:

- Accountancy: Business Partnering, Treasury and Pension Fund Management, Commercial and Investment Finance, Financial Accounting, Financial Systems.
- Transactional and Exchequer: Accounts Payable, Accounts Receivable including Cashbook, In-house Bailiff/Enforcement Services, Client Management of the Revenue and Benefits provider.
- Assurance: Internal Audit, Risk Management, Insurance, Fraud.

In July 2020 the Council's Cabinet agreed to withdraw from the oneSource arrangement with effect from August 2020, based on the non-realisation of intended non-financial benefits for Bexley, performance failings of oneSource, and the need to ensure the Council's finance service was resourced and fit for purpose, financial processes and procedures were robust, financial systems were fit for purposes, and budget holders held accountable.

Financial Improvement Plan

At the same time as the insourcing from oneSource, a Financial Improvement Plan (FIP) was introduced, with a planned implementation timescale of 18 months, which covered a new structure for finance, organisational roles and responsibilities, closure of accounts, financial controls and procedures, a new financial system and staff development.

The finance staffing budget has been increased by £500k as part of the MTFS in 2021/22 to reflect the requirements of the new finance structure and improvements required. Updates on FIP progress have been reported to GP&AC since October 2020, most recently at the meeting on 27 July 2021. At this meeting progress was summarised as follows:

"Overall, the finance improvement plan remains on track with a significant number of deliverables already achieved. The plan is still being developed and as further improvements are identified they will be added as part of a 'Phase II' of the improvement plan." However, there have been delays to key aspects of workstreams, largely relating to capacity issues and challenges recruiting to permanent roles, and given the criticality of the planned changes, the Council should prioritise corporate effort to implement FIP to timescale and ensure changes are effectively embedded, with a recommended independent review of progress in six months' time.

Internal Audit

The Internal Audit report for 2019/20 gave 7 assurance ratings, with 4 areas receiving substantial assurance and 3 receiving moderate assurance. In 2020/21, the internal audit team assessed 5 areas as receiving substantial assurance, 5 moderate assurance and 1 limited assurance. Of particular note is the review of Housing Services.

Housing Services

The Housing Service budget increased by £9m between 2016/17 and 2019/20, with overspends reported in each of these years, and is a particular source of historic revenue budget pressure, in particular in relation to homelessness and the demand for temporary accommodation. Following the 2019/20 overspend an internal audit review was requested by the Chief Executive which reported in October 2020. The report noted there were several factors that contributed to cause the situation including:

- The self-service requirement model following Bexley joining the oneSource shared service in 2016, resulted in reductions to the number of finance staff based on greater financial management activities being undertaken by individual services. This self-service model was not implemented across the Housing Service, which created financial management risks, for example, ongoing weakness with budget control, monitoring and forecasting processes including failure to submit budget monitoring returns on time.

By the time of the audit, there had been changes to approaches and methodologies following a period of considerable change at a senior management level in Housing Services and the move away from oneSource. A number of workstreams have been put in place by the Council, including the Housing Overspend Action Plan and a Housing Improvement Plan (HIP). The internal audit recommendations for the housing service are to be progressed and tracked through the HIP. The approach to the improvement of Housing Services is appropriate given the issues identified, and it will be critical for the Council to prioritise corporate effort to implement HIP to timescale and ensure changes are effectively embedded.

It is pertinent to the scope of this review that the internal audit report also made a number of corporate recommendations, including:

- The timescale for publishing monthly budget monitoring reports should be reviewed, to ensure the information presented to Members is relevant and up to date.
- The budget setting process should include a risk assessment from the service of the key challenges they are anticipating for the following year. Risks to the achievement of projects savings should be identified and action plans agreed and monitored through the performance process.
- Budget and savings proposals including risks should be approved by the relevant Head of Service/Deputy Director and included in the budget approval pack.
- Performance monitoring Council Services should be prioritised to include individual budget lines. Performance monitoring reports should be approved by the relevant Director/Deputy Director.
- The clearance process for papers to CLT and Members should be re-established across the Council.
- Budget holders must submit their monitoring forecasts monthly on time. Regular reports should be provided to CLT of those service areas that do not complete their budget monitoring.
- Information on the performance of Directorates should be provided to Cabinet Members in a consistent format across the Council.
- CLT should seek assurance that the weaknesses in budget management identified in Housing Service are not replicated across the Council.

The most recent update to the General Purposes and Audit Committee in January 2021 indicates progress on these actions with a number not yet fully implemented. These corporate recommendations indicate that the council's financial improvement journey is not yet concluded. It will be critical that the Council completes all actions agreed to timescale and the changes required are fully embedded.

5.3 Approach to transformation and savings

Following the appointment of the current Chief Executive a new organisational blueprint was agreed around which the council was restructured. The Council does not have a corporate transformation programme in place. Rather, it has a savings programme and service specific Improvement Plans in place, with further activity described as “deep dives” for targeted services underway to understand future demand and costs, and to consider opportunities for further efficiencies and savings.

Planned Savings

The 2021-22 approved budget included £12.788m of savings to the baseline budget, through reducing expenditure or increasing levels of income. As at July 2021 the Council was forecasting delivery of 91% (£11.641m) of the approved savings:

Directorate	Savings Agreed £'m	Deliverable £'m	Variance £'m
Adults	1.520	1.520	-
Childrens	2.394	2.394	-
Finance & Corporate Services	2.172	2.172	-
Place	5.802	4.655	1.147
Cross Cutting	0.900	0.900	-
Total	**12.788**	**11.641**	**1.147**

The main delivery of risk relates to car parking income (£1.082m) which continues to see impacts relating to the pandemic. The approved savings relate to three categories:

- Staff reductions: £7.945m
- Other expenditure reductions: £2.438m
- Increased income: £2.405m

A total of 206 FTE reductions are planned (from an overall establishment of 1,742 excluding schools) of which 165.4 had been realised by July 2021 via a combination of deleting vacant posts, voluntary and compulsory redundancies. Further staffing reductions are planning in Adult Social Care and in Housing. Via interviews we were advised that it is too early to tell if staffing reductions will impact on service delivery, but some of the deleted posts were vacant for some time, and the Council has brought in additional interim capacity where demand has increased such as Children’s Social Care, where there was growth budget available. More generally, the Council reports that it is too early to understand impacts of the savings, and this will continue to be monitored with mitigating actions put in place for any unintended consequences.

The council utilises a savings tracker, which is good practice. For the year 2020/21 a total of £6m savings were planned, of which £4.3m (72%) were achieved, with £1.5m (25%) not achieved due to the impact of the pandemic.

Reductions in expenditure relate to improving efficiencies through changes in behaviour (such as use of printing, postal services and use of pooled cars), renegotiation of third-party contracts, and reconfiguration of some services such as libraries and children’s centres. As of July 2021 the Council reported no risk in delivering these savings. The Council should continue to actively monitor the savings programme, paying particular attention to those that require sustained corporate leadership and which should not be left to individual services to deliver. Plans to increase income primarily related to car parking (£1.484m of £2.405m) based on service demand reverting back to pre-COVID-19 levels, and increases to fees, charges and parking enforcement income. As already noted, there is a variance of £1.082m on planned increase to car parking income. For the first quarter of 2021-22 the Council can claim 71.25% of the loss of car parking income via DLUHC’s sales, fees and charges scheme.

Risk Management

The council maintains a strategic risk register monitoring threats to the achievement of the Council’s objectives as identified by CLT in line with the Council’s risk management strategy. Directorates maintain separate risk registers relating to service risks. The strategic risk register is regularly reviewed by CLT and Cabinet, whilst service risk registers are reviewed by Departmental Management Teams.

6. Council assets and other commercial property interests

6.1 Review of the council's current asset position

Nature of assets owned by the Council

The total number of Assets held by Bexley is summarized in the table below.

Asset Type	Number	Asset Type	Number
Offices	10	Adults	26
Depot	2	Childrens	13
Leisure	10	Educational Support	2
Cultural	11	Schools**	70
Community	11	Residential	223
Green Estate*	142	Cemeteries	5
Car Parks	21	Miscellaneous	11
Investment	63		

*The Green Estate includes assets such as Open Spaces, Playing Fields, Pavilions etc.

** This includes academies

The asset list is held on software called UNIFORM but this is more of a property terrier (ie a list of buildings and assets owned by the Council) than an Asset Management tool. At present the UNIFORM system does not contain current asset valuations, internal area, condition reports and backlog maintenance values. There have been no condition surveys for over 5 years, but the council is currently in the process of commissioning these, at present the value of backlog maintenance is not known. The finance team have an asset register that holds asset valuations for accounting purposes, but this is not integrated with the property database. There is no information about the occupancy levels of assets, which we would expect to see, so that the Council optimises the use of its property portfolio.

Adequacy of estimates of capital receipts

A report to members in April 2021 updated the progress on 9 assets that had been identified for sale in the previous year as part of a 'phase 1' of asset sales. A summary of progress is shown in the table below.

Asset	Est Value	Sale price	Variance
	£000	**£000**	**£000**
Bexley Heath pop In Centre	270	310	40
West Lodge	800	971	171
Former Depot	360	655	295
Slade Green Land	1,120	1,131	11
Sidcup Green Car Park & WC's	250	165	-85
Old Manorway Tennis Courts	650	656	6
Total Sales	**3,450**	**3,888**	**438**
1-5 Victoria Rd 27 Station Rd	4,500	Not yet sold	
Woodside Clinic	No Estimate	Not yet sold	
Land east of Normandy Primary	500	Not yet sold	
Overall Total	**8,450**	**3,888**	**438**

Of the 6 assets already sold only one sold for less than the estimated price with the others bringing in a combined overestimate of £438k. So, although on the positive side there is a large variation in estimated selling price compared to the price achieved. There should be a review of how asset sale prices are arrived at and whether professional market estimates are used as underestimating asset values could constrain ambition about the price to be achieved

Feasibility of any additional asset disposals

There is a phase 2 list of assets for disposal and an estimated figure of receipts to be generated to fund the capital programme up to 2024/25 of £3.7m. Some of the remaining phase 1 assets and assets named in phase 2 have yet to have a value placed against them. However, past practice has shown that there is a detailed approach to identifying and managing asset sales from experienced staff so there is no reason to suggest that this estimate should not be achieved.

The future position is such that as the number of redundant assets has decreased there will be less opportunity to fund the capital programme from this source. The council is looking to Bexley Co to replace the fall off in receipts from additional revenue generated by the Company.

Use of Asset Sales as a means to raise receipts

The Council has been using capital receipts as a means to part fund the capital programme for many years and will do for at least the next 3 years. However, by their own admission the pool of redundant assets has reduced significantly and there will need to be less reliance capital receipts as a source of funding in the future.

Becoming more strategic from an asset management perspective will give the council greater insight into its capital programme ambitions and how it will fund them in the future. This is recognised by stakeholders and the plans to implement the Corporate Landlord model will bring more focus to this area.

Current valuations of properties for book purposes are commissioned from an external provider and new valuations are submitted to the Council, but at present due to resource requirements UNIFORM, the property terrier, is not updated with these valuations.

Approach to Asset Management

The last published Asset Management Plan covered the period 2007 to 2012 but this has not been updated since. Therefore, the last plans to manage assets was done 14 years ago to cover the following 5 years. An updated plan needs to be completed that outlines the strategy for managing assets for the next 5 years linked to the council's strategic priorities and associated corporate plans. From interviews with stakeholders, who are long term, experienced employees, the view is that there is currently an ad hoc approach to asset disposal decisions. However, over many years there has been an active approach to disposal of assets based on assets becoming redundant and not required for re-use which has resulted in the generation of significant amounts of capital receipts which have supported the funding of the capital programme. The view from officers now is that there are not many opportunities for further large asset sales as most assets have already been sold. In order to support the capital programme with a reducing capital receipts profile the Council's approach is to look at further borrowing required, this will be through usual borrowing limits or utilising the prudential code to increase borrowing limits if affordable to do so.

Because of the lack of up-to-date information it is difficult to comment on the adequacy of the performance of asset management within the framework of a formal process, but we note the Council is commissioning a stock condition survey which should conclude in June 2022. There are experienced officers of long standing in place who know the asset portfolio well and there has been a concerted effort to dispose of redundant assets over several years which has helped to fund the capital programme.

It should be noted that the Council's approach to Asset Management is in a period of transition and that it is actively working towards the introduction of a Corporate Landlord model of operation. This will be underpinned by the continued development of a new Asset Management System (TechForge) which will give a more holistic and integrated approach to asset management than there is currently. The timescales are that the Corporate Landlord model will be implemented in the next financial year. Once this is in place the Council will better placed to manage the asset process more effectively and have more transparency of its asset position.

The introduction of the Corporate Landlord model is essential for the service to move forward. There used to be a multidisciplinary asset management working group, but this has not met for some time and there is now a lack of an integrated approach. A catalyst is needed to update the Asset

Management Plan, ensure condition surveys are commissioned and delivered and the resultant backlog maintenance is built into the capital programme so assets do not deteriorate or become unusable.

Commercial Portfolio

Lease information and rent review dates are held in UNIFORM and action taken appropriately. The focus is on achieving market rents but tempered by local economic stability. No evidence is available to show rent revenue achieved and benchmark yields, this is a deficiency that needs to be addressed in the new system.

Most of the rental income comes from just 8 of the 60+ commercial premises owned by the Council, these are big ticket items such as shopping centres, bowling alleys and Westminster House., which are all located in-borough. The risk to the council is if retail and leisure trends move away from these assets there will be a significant impact on the revenue generated from the commercial portfolio. Close management of rental yield and management of these assets is required so that any adverse conditions are highlighted in advance in order for appropriate remedial action to be taken.

What is the reduction in revenue spend on FM in relation to the Asset Rationalisation Programme

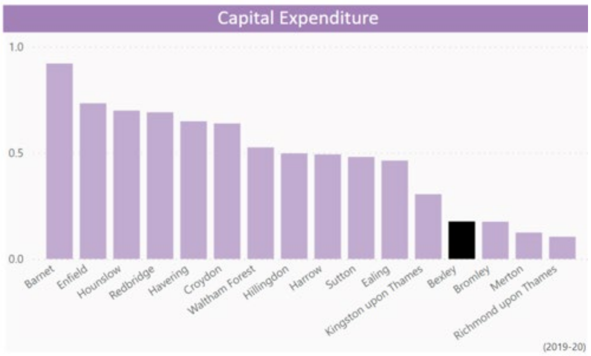
The other gap in financial information is that there is no knowledge of the revenue savings achieved when an asset has been disposed of so budget savings are not identified as part of the overall asset rationalisation programme. Again, this is another key area that needs to be addressed on new system implementation.

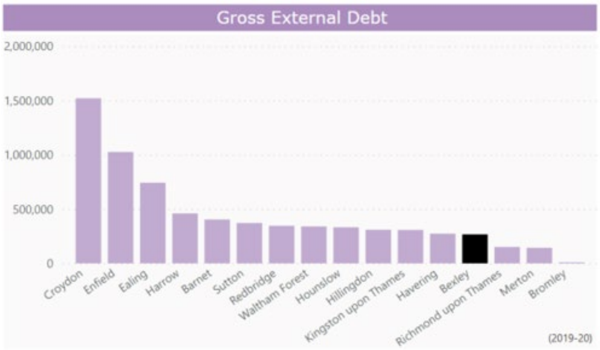
Accommodation Strategy

The Council are aware that post COVID-19, and with the continuance of flexible and home working, they will not need as much office accommodation as they currently have. They are currently actively engaging with both public and private sector partners about their future office space needs with a view to securing new tenants.

6.2 Capital programme

Bexley has a relatively low capital expenditure, in terms of its proportion to net revenue expenditure, when compared to its statistical neighbours. The Council also has a relatively low level of external debt when compared to its statistical neighbours. This is a positive position in terms of the council's financial sustainability of its revenue budget.





The capital programme

The capital programme as at July 2021 is summarised below:

Directorate	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	Total £'000	TOTAL Grants £'000	S106 £'000	Reserves/Contri £'000	Capital Receipts £'000	CIL £'000	Borrowing £'000	Total £'000
Children and Education	4,827	-	-	-	-	**4,827**	3,969	-	-	-	-	858	4,827
Adult Social Care and Public Health	1,735	1,200	-	-	-	**2,935**	-	-	-	1,349	587	999	2,935
Places & Communities	37,922	10,084	413	240	-	**48,659**	7,912	1,349	1,236	1,257	3,958	32,947	48,659
Finance and Corporate	37,665	16,351	32,693	42,043	-	**128,752**	-	-	250	1,106	-	127,396	128,752
Total Capital Expenditure	**82,149**	**27,635**	**33,106**	**42,283**	**-**	**185,173**	**11,881**	**1,349**	**1,486**	**3,712**	**4,545**	**162,200**	**185,173**

The majority of the proposed funding comes from borrowing, with the Council accepting higher risk on capital investments in the regeneration programme than with treasury investments, with these risks including a fall in capital values, inflation, and interest rate risk. Risks are managed through the individual capital projects. From 2020/21 onwards a contingency budget was added to the programme to give the Council some flexibility.

Capital strategy and financing

The Council has a Capital Strategy in place for 2021/2022. Its key objectives are to:

- Align the capital programme with the Council's corporate priorities;
- Maintain an affordable five-year programme;
- Maximise available funding sources;
- Maximise and ensure the most beneficial and cost-effective use of the council's assets;
- Borrow only when there is no alternative and only if there are sufficient funds to meet the revenue implications.

The Council's key capital priority areas are:

- Investing in major developments as part of regeneration scheme
- Focus on infrastructure of highways and footways for a better transport system
- Culture of continuous learning and development within schools and colleges
- Enhancement of Council's existing asset base to maximise the best used of those assets
- Investment in Council and community assets that support the delivery of living independently and living well.

Capital investment has taken on increased importance for the Council as other resources become scarce. The Strategy notes that the delivery of income streams due from the series of regeneration led projects for housing development are crucial and underpin the Council's ability to meet the cost of this capital investment and generate future revenue returns to support the delivery of the MTFS. Failure to deliver to the capital programme could result in significant financial pressures for the council and therefore robust programme and project governance will be essential.

The scale of investment required to finance the Council's increasing focus on growth and regeneration will require the Council to use its prudential borrowing powers. Scope to repay and refinance debt is limited due to changes in PWLB redemption arrangements which introduced a penalty rate when prematurely paying debt. As at 30th November 2020 the Council's debt outstanding was £223m. These are all PWLB fixed long-term loans at an average rate of 3.33%, incurring annual interest payments of £7.5m. The Council has an MRP policy in place and it should continue to monitor the affordability of borrowing in terms of its revenue implications.

Use of capital receipts to fund revenue expenditure

The Council has applied the flexible use of capital receipts to fund transformation expenditure including redundancy costs. This approach is dependent on a level of regeneration activity in place being aligned to the value of revenue that is capitalised. The Council should ensure this is monitored to ensure it complies with capitalisation regulations.

7. Roadmap for improvement

This section sets out a summary of our recommendations in the form of a high-level action plan for financial improvement, the authority can incorporate into its existing medium term financial strategy.

		2021	2022												2023		
		Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
	Assets																
1.1	There should be review of how asset sale prices are arrived at and whether professional market estimates are used as underestimating asset values could constrain ambition about the price to be achieved.																
1.2	The Council should be more strategic in asset management, to provide greater insight into its capital programme ambitions, the associated liabilities, and how it will fund them in the future. This is recognised by stakeholders and the plans to implement the Corporate Landlord model will bring more focus to this area. Specifically the out of date Asset Management Plan needs updating and should link to other Corporate Plans and the MTFS																
1.3	Close management of rental yield from commercial assets is required so any adverse market conditions are highlighted in advance in order for appropriate remedial action to be taken.																
1.4	Improve understanding of what revenue savings are achieved when an asset has been disposed of so that budget savings are not identified as part of the overall asset rationalisation programme.																
1.5	Review office accommodation strategy given impact of the pandemic on working patterns																
1.6	Ensure that robust project and programme management arrangements are in place to deliver the capital programme so that revenue budget pressures are not exacerbated																
1.7	Continue to monitor the affordability of borrowing in terms of its revenue implications.																
1.8	Monitor the capitalisation of revenue expenditure to ensure this stays within the regulatory framework.																
	Capitalisation																
2.1	The Council should consider whether there remains a need for EFS and update DLUHC																
	Commercial / Borrowing																
3.1	Closely monitor the activity of BexleyCo to ensure it is in line with its business plan expectations																
3.2	Clear definition and understanding of commercial and consider developing a corporate commercial strategy																
3.3	Ensure effective programme and project management of the capital programme, in particular those investments where income generation are critical to delivering the MTFS.																
	Governance and Oversight																
4.1	The Council should consider separating the Audit Committee from the business of the General Purposes Committee to ensure appropriate and dedicated focus on internal and external audit findings, monitoring actions and other key finance related matters.																
4.2	The Council to request an independent Finance Peer Review to support continuous improvement and learning culture																
4.3	Introduce a structured training programme for elected members on finance related issues (eg financial planning, financial management, financial control, the financial system)																
4.4	Update the Corporate Plan to reflect the impact of COVID-19 on council priorities																
4.5	Prioritise corporate effort to implement the Financial Improvement Plan to timescale and ensure changes are effectively embedded, including recruiting to the new structure and fully implementing the new financial system, with a recommended independent review of progress in six months' time.																
	Reserves																
5.1	Develop a reserve replenishment strategy to grow its reserves to a sustainable level, considering different scenarios in relation to government funding levels, and be reflected in the Section 25 Statement.																
	Savings / Efficiencies																
6.1	Undertake a formal benchmark analysis and review of service costs against Bexley's local authority statistical neighbours in particular Housing and Environmental and Regulatory Services to identify areas for potential further efficiency and improvement.																
6.2	A forensic 'deep dive' is undertaken across ASC in order to identify and model a robust savings plan, which focuses on managing demand and cost. This should also incorporate a comprehensive analysis of future accommodation requirements.																
6.3	Current Children's Social Care work to identify and agree savings is accelerated and modelled over the next three years.																
6.4	Further develop the plan, working with partners, on how to address the DSG deficit, with particular consideration around inclusion and reconfiguration of provision for SEN.																
6.5	Continue to actively monitor the savings programme, paying particular attention to those that require sustained corporate leadership and which should not be left to individual services to deliver.																
6.6	Develop a savings plan which aligns with the whole MTFS period, which identifies as early as possible the savings that are expected to contribute to filling the £14m spending gap in the MTFS, utilising scenario analysis to manage medium-term funding uncertainty.																
6.7	Complete the implementation of the Housing Improvement Programme and associated Housing Overspend Action Plan.																

8. Compliance with relevant Local Government accounting codes and practice

The Council's external auditors EY, in their Annual Audit Letter relating to the 2019/20, provide an unqualified audit on the financial statements, the most recently completed external audit. This unqualified opinion provides assurance that the Council is compliant with relevant local government accounting codes and practice.

The report to the Council meeting on 3 March 2021 setting out the Council's financial plans for 2021/22 noted that the Capital Management Strategy meets the requirement to follow the Prudential Code for Capital Finance in Local Authorities, 2017 edition. It also adheres to the latest codes, in particular regulations 2 and 24 of the Local Authorities (Capital Finance and Accounting) Regulations 2003.

A Capital Treasury Management Strategy for 2021/22 was approved by the Council before the start of the financial year in accordance with the CIPFA Code of Practice for Treasury Management as well as setting a number of Prudential and Treasury Management Indicators for treasury management.

Appendix 1: Stakeholders interviewed

Interviewee	Title
Bexley Council	
Cllr Teresa O'Neill, OBE	Leader of the Council
Cllr David Leaf	Deputy Leader of the Council & Cabinet Member for Resources
Jackie Belton	Chief Executive
Paul Thorogood	Director of Finance & Corporate Services (Section 151 Officer)
Stuart Rowbotham	Director of Adult Social Care & Health / CCG Borough Based Director
Stephen Kitchman	Director of Children's Services
Matthew Norwell	Director of Place
Akin Alabi	Deputy Director Legal & Democratic Services (Monitoring Officer)
Nickie Morris	Deputy Director Finance & Property (Deputy Section 151 Officer)
Jeremy Wellburn	Head of Assurance and Risk Management
Kevin Fox	Head of Committee Services & Scrutiny
Suzanne Jackson	Head of Property
Graham Muirhead	Property Manager
Kevin West	FM Manager (Hard)
Carol Spiteri	FM Manager (Soft)
Others	
Janet Dawson	Partner and Head of Public Sector Assurance, EY. Lead External Auditor for LB Bexley audit years 2018/19 and 2019/20
Elizabeth Jackson	Associate Partner, EY. Lead External Auditor for LB Bexley audit year 2020/21

Appendix 2: Documents reviewed

Document Name	Document Name	Document Name
Bexley Schools Forum Agenda – 21 June 2021	Surplus Assets Capitalisation Query	Balance Sheet 2019-20
Bexley – oneSource Structure (Org Chart)	2019-20 Capital Expenditure Transactions	Capital Receipts Forecast – 9 November 2020
Employer Pension Contribution – Prefunding 2020/21 to 2022/23 Report	London Borough of Bexley Pension Fund – IAS19 Pension Scheme Accounting Figures as at 31 March 2021	Loans to third parties 31 March 2019 – 31 March 2020
Bexley DSG minutes – 27th August 2020	General Purposes and Audit Committee – Audit opinion and sign-of of the 19/20 Annual Accounts – 31 March 2021	Capital Programme - 31 October 2020
Bexley Inspection of children's social care services – 9 July 2018-20 July 2018	Public Cabinet Minutes – 22 February 2021	COVID-19 Local authority financial management return – round 7
Bexley Corporate Plan	Public Cabinet – Budget Monitoring Report 2020/21 Outturn (March 2021) – 26 July 2021. Appendix A, B, C	Letter to Suzanne Clarke – Capitalisation Directive – 20 November 2020
Bexley SEND Strategy 2020-2023	Council meeting minutes – 3 March 2021	Sales Fees and Charges Grant Payments Email – 19 November 2020
Bexley Senior managers structure chart – May 2021	Public Cabinet – Budget Monitoring Report 2021/22 (May 2021) – 26 July 2021. Appendix A, B	Potential Increased Expenditure as a Result of COVID-19
Bexley Joint Targeted Area Inspection Report – Jan 2020	Bexley – Budget Monitoring Savings 2021 Period May 2021	Savings at Risk of Delivery – 2020/21
Bexley Joint Budget Overview and Scrutiny Committee Budget Report – 14 July 2021	General Purposes and Audit Committee – Calculation of the Business Rates Base 2021/22 – 19 January 2021. Appendix 1i, 1ii	Potential Loss of Income
Finance Team Structure (Org Chart)	General Purposes and Audit Committee – Calculation of Council Tax Base for 2021/22 – 19 January 2021. Appendix A	Public Cabinet Minutes – 7 July 2020
Council Meeting minutes – 3 March 2021	Statement of Accounts for the year 2019/20	General Purposes and Audit Committee Minutes – 21 October 2020
General Purposes and Audit Committee – 21 October 2020 Minutes	Bexley Pension Fund Audit Results Report – Year ended 31 March 2020 – 2 October 2020	Council Meeting – 4 March 2020 – Supplementary Report to Item 4 – Financial Plans 2020/21
Public Reports Pack 3 March 2021	London Borough of Bexley Draft Audit Results Report – Year ended 31 March 2020 – 8 October 2020	LB Bexley Capitalisation Proforma
General Purposes and Audit Committee Minutes – 19 January 2021	London Borough of Bexley Statement of Accounts 2019/20 – Pension Fund Account	Asset Management Plan 2007/12
General Purposes and Audit Committee Minutes – 21 October 2020	General Purposes and Audit Committee – 21 October 2020 – External Audit Report on the Statement of Accounts and approval of the Statement of Accounts 2019/20	Capital Programme by Directorate
Public Cabinet Minutes – 22 February 2021	General Purposes and Audit Committee – Finance Improvement Plan – Progress Report – 31 March 2021. Appendix A	Regen and Assets structure (Org Chart)
General Purposes and Audit Committee Minutes – 27 July 2021	Finance Improvement Plan Progress Report January 2021. Appendix A	Public Cabinet Minutes – 25 February 2020
General Purposes and Audit Committee Minutes – 31 March 2021	Constitution and Code of Corporate Governance Financial Regulations	Public Cabinet – Medium Term Financial Strategy, 2018/19 Outturn Report and Capital Programme Issues – 9 July 2019. Appendix A, B, C
Public Cabinet Minutes – 17 November 2020	General Purposes and Audit Committee – Draft Internal Audit Plan 2021/22. Appendix 1	Public Cabinet – Medium Term Financial Strategy 2021/22 to 2024/25 - 7 July 2020
Reserves Analysis – 31 March 2020	Internal Audit: Charter and Strategy 2021	Approval to withdraw from the OneSource shared service – Exempt Appendix

Public Cabinet – Medium Term Financial Strategy 2022/23 to 2025/26 – 26 July 2021. Appendix A, B, C, D, E, F	Report to Councillor Teresa O'Neill, OBE, Leader of the Council on behalf of the Cabinet – Approval to withdraw from the OneSource shared service – 17 July 2020	General Purposes and Audit Committee Minutes – 27 July 2021
General Purposes and Audit Committee – Risk Register – 19 January 2021	Draft Statement of Accounts for the year 2020/21	Statement of Accounts for the year 2019/20
Statement of Accounts 2018/19	Bexley – Tax base Calculation Appendix A	General Purposes and Audit Committee – Treasury Management Half Yearly Report 2020/21 – 19 January 2021
20/21 Draft Pension Fund Accounts – Statement of Responsibilities for the Pension Fund Accounts	Heritage Assets Summary List	Investment Property Listing
Strategic Risk Register	Bexley Capitalisation Direction 10 February 2021	FISA Bexley

77 Mansell Street, London E1 8AN
+44 (0)20 7543 5600

cipfa.org