

PUBLIC CABINET – 9 JULY 2019

MEDIUM TERM FINANCIAL STRATEGY, 2018/19 OUTTURN REPORT AND CAPITAL PROGRAMME ISSUES

ISSUES

This report updates Members on progress with the Medium Term Financial Strategy.

This report outlines 2018/19 Outturn for consideration. Contained within is the 2018/19 Outturn for Revenue including narrative for variances to budget across all services.

Capital Outturn 2018/19 detailing variances to budget across all schemes is included for consideration. The updated Capital Programme is also included for approval.

OPTIONS

- (1) To agree the proposed decisions contained in the report
- (2) To make amendments to the proposals.
- (3) To reject the proposals

PROPOSED DECISIONS

- 1) To note the information contained within 2018/19 Revenue Outturn Report.
- 2) To note the Medium Term Financial Strategy.
- 3) To agree the Fees and Charges Strategy.
- 4) To agree the virement for Adults' and SEN Transport budgets transferring to Place and Communities, in accordance with Financial Regulation 7, Annex 2 Scheme of Virement.
- 5) To note the renewed contract price for grounds maintenance in accordance with Financial Regulation 18 (2) (c).
- 6) To agree to Bexley continuing in a London Business Rates Pool should the option continue.
- 7) To agree the revised Capital Programme set out in Appendix C.

REASONS

The decisions will allow the Council to maintain its robust financial position.

Signed:..... **Date:**

Councillor Teresa O'Neill OBE, Leader of the Council

LAST DATE FOR CALL-IN:

PUBLIC CABINET – 9 JULY 2019

MEDIUM TERM FINANCIAL STRATEGY, 2018/19 OUTTURN REPORT AND CAPITAL PROGRAMME ISSUES

Section A – Medium Term Financial Outlook

1. Introduction

The work on the Medium Term Financial Strategy will be reported in line with the key milestones this year. The cycle of meetings for the Medium Term Financial Strategy and Budget process, with reports to Scrutiny Committees in the Autumn and Winter, are

- Public Cabinet 9th July 2019
- Public Cabinet 8th October 2019
- Public Cabinet 27th January 2020
- Public Cabinet 24th February 2020
- Full Council 4th March 2020

The medium term financial planning process is an essential part of the Council's strategic planning framework. The Medium Term Financial Strategy integrates strategic and financial planning over a four-year period. It translates the Corporate Plan priorities into a financial framework which enables the Cabinet and officers to ensure policy initiatives can be delivered within available resources and can be aligned to priority outcomes.

2. Background

In February 2019 for the Public Cabinet Meeting, and full Council in March 2019, the Medium Term Financial Strategy which was prepared showed a budget gap of £31.445m to 2022/23. This was based on some known factors, and with the level of certainty over future funding, a cautious approach on income for the Council from grants and business rate. The version of the report appears below:

Table 1 The Budget Gap

	2019/20 £'m	2020/21 £'m	2021/22 £'m	2022/23 £'m
(A) Total Funding	174.580	162.685	162.364	166.346
(B) Service Expenditure	183.314	191.319	198.393	205.143
(C) Total Budget Requirement	174.580	181.510	190.658	197.791
Budget Gap (C) – (A)	0.000	18.825	28.294	31.445

We anticipate both a reduction from the current year in total funding, whilst pressures on services see rising expenditure throughout the medium term. The consequence is a significant requirement to make savings, and identify efficiency and transformational opportunities.

Table 2 – Medium Term Financial Strategy as at February 2019

Bexley	2019/20 £'m	2020/21 £'m	2021/22 £'m	2022/23 £'m
Business Rates and RSG Funding				
RSG - Assumed rolled-in				
Business Rates - Base Line, Top up and Retained	(44.366)	(39.101)	(38.905)	(39.518)
Sum of S.31 grants outside of net retained rates calculation	(0.945)			
Business Rates - 75% Pooling Pilot	(2.170)			
Business Rates - 2018/19 Additional Pooling Benefit	(1.969)			
Total Retained Rates	(49.450)	(39.101)	(38.905)	(39.518)
Other Grants				
New Homes Bonus	(1.741)	(0.854)	(0.576)	(0.576)
Improved Better Care Fund Original Allocation	(2.064)	(2.064)	(2.064)	(2.064)
Improved Better Care Fund Supplementary Allocation	(0.800)	(0.800)	(0.800)	(0.800)
Flexible Homelessness Support Grant	(1.839)	(1.700)	(1.550)	(1.550)
Homelessness Reduction Act - New Burdens	(0.176)			
Council Tax Support Admin Grant	(0.232)	(0.200)	(0.180)	(0.180)
Housing Benefit Subsidy Administration Grant	(0.643)	(0.593)	(0.543)	(0.543)
Retained Levy Account Surplus	(0.553)			
Adults and children's social care grant	(1.586)			
Lead Local Flood Authorities Grant	(0.021)			
Total Other Grants	(9.655)	(6.211)	(5.713)	(5.713)
Council Tax				
Adult Social Care Precept (1% Base increase)	(5.894)	(6.001)	(6.055)	(6.055)
Council Tax (1% Base increase)	(100.306)	(101.247)	(102.288)	(103.311)
Increase in Council Tax (1.99%)	(2.100)	(4.456)	(6.734)	(9.080)
Increase in ASC Precept (2% 19/20 only)	(2.123)	(2.123)	(2.123)	(2.123)
Council Tax Empty Homes Premium	(0.080)	(0.080)	(0.080)	(0.080)
Total Council Tax	(110.503)	(113.907)	(117.280)	(120.649)
Total In Year Funding	(169.608)	(159.219)	(161.898)	(165.880)
Collection Fund Adjustment	(3.000)	(3.000)		
Movements in Earmarked Reserves	(1.972)	(0.466)	(0.466)	(0.466)
Total Funding	(174.580)	(162.685)	(162.364)	(166.346)
Service Expenditure	183.314	191.319	198.393	205.143
Total Interest and Financing Costs	(11.424)	(10.715)	(8.564)	(8.264)
Total Levies	8.145	8.226	8.309	8.392
Total Savings	(8.155)	(10.020)	(10.180)	(10.180)
Planned Net Expenditure on Services	171.880	178.810	187.958	195.091
Total Contingency	2.700	2.700	2.700	2.700
Total Budget Requirement	174.580	181.510	190.658	197.791
Budget Gap	0.000	18.825	28.294	31.445

3. Current Assumptions and Future Outlook

There continues to be significant uncertainty in future funding for local government. Additionally, the Council continues to experience significant population growth and demographic change, placing further pressure on service provision. However in this Section we take a “status quo” approach on some of our funding, and revisit our costs, and look again at the budget gap, which was £31.445m. The outcome of this is to increase the gap to £33.414m by 2022/23. Moving ahead a year, the four year strategy reveals a gap of £38.045m.

Table 3 Revised Medium Term Financial Strategy – To 2023/24

Bexley	2019/20 £'m	2020/21 £'m	2021/22 £'m	2022/23 £'m	2023/24 £'m
Business Rates and RSG Funding					
RSG - Assumed rolled-in					
Business Rates - Base Line, Top up and Retained	(44.366)	(39.101)	(38.905)	(39.518)	(39.518)
Sum of S.31 grants outside of net retained rates calculation	(0.945)				
Business Rates - 75% Pooling Pilot	(2.170)				
Business Rates - 2018/19 Additional Pooling Benefit	(1.969)				
Total Retained Rates	(49.450)	(39.101)	(38.905)	(39.518)	(39.518)
Other Grants					
New Homes Bonus	(1.741)	(0.854)	(0.576)	(0.576)	(0.576)
Improved Better Care Fund Original Allocation	(2.064)	(2.064)	(2.064)	(2.064)	(2.064)
Improved Better Care Fund Supplementary Allocation	(0.800)	(0.800)	(0.800)	(0.800)	(0.800)
Flexible Homelessness Support Grant	(1.839)	(1.700)	(1.550)	(1.550)	(1.550)
Homelessness Reduction Act - New Burdens	(0.176)				
Council Tax Support Admin Grant	(0.232)	(0.200)	(0.180)	(0.180)	(0.180)
Housing Benefit Subsidy Administration Grant	(0.643)	(0.593)	(0.543)	(0.543)	(0.543)
Retained Levy Account Surplus	(0.553)				
Adults and children’s social care grant	(1.586)				
Lead Local Flood Authorities Grant	(0.021)				
Total Other Grants	(9.655)	(6.211)	(5.713)	(5.713)	(5.713)

Council Tax					
Adult Social Care Precept (1% Base increase)	(5.894)	(6.001)	(6.055)	(6.055)	(6.055)
Council Tax (1% Base increase)	(100.306)	(101.247)	(102.288)	(103.311)	(104.344)
Increase in Council Tax (1.99% 2020/21 onwards)	(3.160)	(5.380)	(7.665)	(10.018)	(12.437)
Increase in ASC Precept (2% year on year after 19/20))	(2.123)	(2.123)	(2.123)	(2.123)	(2.123)
Council Tax Empty Homes Premium	(0.080)	(0.080)	(0.080)	(0.080)	(0.080)
Total Council Tax	(111.563)	(114.831)	(118.211)	(121.587)	(125.039)
Total In-Year Funding	(170.668)	(160.143)	(162.829)	(166.818)	(170.270)
Collection Fund Adjustment	(3.000)	(3.000)			
Movements in Earmarked Reserves	(0.912)	(0.466)	(0.466)	(0.466)	(0.466)
Total Funding	(174.580)	(163.609)	(163.295)	(167.284)	(170.736)
Service Expenditure	183.314	190.941	198.631	206.491	214.491
Total Interest and Financing Costs	(11.424)	(10.715)	(8.564)	(8.264)	(8.264)
Total Levies	8.145	8.226	8.309	8.392	8.476
Total Savings	(8.155)	(8.461)	(8.621)	(8.621)	(8.621)
Planned Net Expenditure on Services	171.880	179.991	189.755	197.998	206.082
Total Contingency	2.700	2.700	2.700	2.700	2.700
Total Budget Requirement	174.580	182.691	192.455	200.698	208.782
Budget Gap	0.000	19.082	29.159	33.414	38.045

Table 4 – Medium term budget gap

Budget Gap	2020/21	2021/22	2022/23	2023/24
May 2019 - Incremental	£19.082m	£10.077m	£4.255m	£4.631m
May 2019 - Cumulative	£19.082m	£29.159m	£33.414m	£38.045m

Government Funding

In October 2016, the Council signed a four-year financial settlement from Government in exchange for publishing an efficiency plan covering 2016/17 to 2019/20. The future beyond 2019/20 is far less clear. The Council recently fed back to the Government on consultations relating to Fair Funding and the Business Rates Retention. There are no confirmed deadlines to the reviews, so increasing the uncertainty and restricting a robust financial planning process. It was envisaged that councils would have “indicative numbers” by spring-summer 2019 and the review to be implemented in April 2020.

The Medium Term Financial Strategy currently assumes that the London business rates pilot will end after 2019/20 and further reductions proportionate to the revenue support grant will continue. This will mean that the Council will need to continue to

generate additional income or deliver further savings in order to achieve a balanced budget and continue to support an expected increase in services needs going forward.

The Government is revising and updating the distribution process of funding between local authorities through the fair funding review. The review will not set the overall funding total for local government it will simply assess the relative needs and pressures of authorities to ensure the distribution method between authorities is as fair as possible. As the funding system is still in development it is not possible to forecast the implications for the Council at this stage.

In summary, although there is a clear understanding that the local government finance landscape will change, it is still difficult to gauge the full impact on the Council until details of the design of the new systems are introduced and final schemes have been agreed. Updates will be provided as new information emerges.

Business Rates Income and the London Business Rates Pooling Pilot

Income from business rates is an increasingly important source of funding for the Council since business rates retention began in April 2013. Whilst the retention scheme has changed, over the last five years the baseline funding level at Bexley has been steadily increasing. Bexley has very good rates for collection (the in-year collection rate for 2018/19 was 98.61%).

A recent review of the business rates register list revealed the key areas with the highest rateable values

Table 5 Business Types and Rateable Value and Income

	Total Rateable Value for the Analysis Class	Business Rates Collectable (Assuming Standard Multiplier of 50.4p)
Shops, Banks, Post Offices etc	£51.429m	£25.9m
Warehouses, Stores etc	£37.905m	£19.1m
Factories, Workshops etc	£16.755m	£8.4m
Local Authority Schools and Colleges	£12.512m	£6.3m
Offices	£10.107m	£5.1m
Water	£8.100m	£4.1m
Other Industrial Minerals	£5.942m	£3.0m

Bexley is part of London's Business Rate Pilot. In 2018/19 this was a retention scheme set at 100% for London. With growth in Business Rates income, the net additional benefit to the Council was an estimated one-off gain of £3.839m. In 2019/20 the scheme reduced to a 75% pilot retention scheme. The Council is estimated to receive a net additional benefit, from participating in the pool, of £2.170m in 2019/20.

Beyond 2019/20 the government is considering plans to reset the business rates base, used to distribute business rate resources alongside the fair funding review of needs based distribution formulae. The revaluation of business rates and centralisation of the appeals process are also relevant considering the overall level of resources to be generated from this funding source. Little information has been published to date on how these changes will be implemented and further consultation is expected in the coming months.

The Medium Term Financial Plan currently assumes the London pool will not continue after 2019/20 and therefore has income from business rates assumed as follows:

Table 6 – Retained Business Rates assumptions 2020/21 to 2023/24

Bexley	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
Total Retained Rates	39.101	38.905	39.518	39.518

With the loss of pooling benefits, together with a lack of certainty on business rate top-ups and section 31 grants, the current projection is for business rates and RSG funding to decline from £49.450m to £39.101m in 2020/21. This creates the significant budget gap in the first of the four-year Medium Term Financial Strategy.

As soon as the Government announce what will happen with Business Rates following the consultation, the Council can then plan ahead. The current baseline, with top-ups mean retained business rates of £44.366m before any other adjustments. The government has used “top ups” and “floors” in the past, and if it continues, this element could be £5.265m “better” than the previous version of the Medium Term Financial Strategy, which impacts upon the forecasts for the Council’s funding. London Councils have said they would like to continue with the pool beyond March 2020. If there is an option to continue with a London Pool, approval is sought for Bexley to be inside this arrangement.

New Homes Bonus

The New Homes Bonus was introduced in 2011 to provide an incentive for local authorities to encourage housing growth in their areas. In December 2016, following consultation, the government announced reforms to the Bonus as follows:

- reduction of the number of years new homes bonus payments are made from 6 to 5 years in 2017/18 and to 4 years from 2018/19; and
- the introduction of a national baseline for housing growth of 0.4% of council tax base (weighted by band) from 2017/18, below which new homes bonus will not be paid.

It is the Government’s intention to explore how to incentivise housing growth most effectively, for example by using the Housing Delivery Test results to reward delivery or incentivising plans that meet or exceed local housing need. Government will consult widely on any changes prior to implementation. The funding assumption over the medium term is detailed in the table below:

Table 7 – Assumed New Homes Bonus allocation 2020/21 to 2023/24

	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
New Homes Bonus	0.854	0.576	0.576	0.576

The calculation of Bexley’s New Homes Bonus took account of:

- Total Units Added (Net Additions less Empty Homes)
- Units for Reward (Band D equivalents net of those under the baseline)
- Affordable Units

The housing stock in Bexley was just over 98,600 properties. With a net increase of over 470 properties taking account of nearly 490 empty homes. The affordable housing supply in the previous period was just over 130.

Improved Better Care Fund

The Improved Better Care Fund was created to improve the lives of some of the most vulnerable people in the Borough. It places them at the centre of their care and support; providing them with integrated health and social care services that improve their experience and lead to a better quality of life. This approach to integrated working with health has been in place in Bexley for a number of years - Integrated Care Services with Oxleas, a Joint Commissioning Service with Bexley Clinical Commissioning Group and more recently the launch of Bexley Care.

The medium term financial plan currently assumes continuation of the Improved Better Care Fund as set out in the table below:

Table 8 Assumed Improved Better Care Fund allocation 2020/21 to 2023/24

IBCF	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
Original Allocation	2.064	2.064	2.064	2.064
Supplementary Allocation	0.800	0.800	0.800	0.800
Total	2.864	2.864	2.864	2.864

The Government has recently announced a £20bn increase in funding for the NHS by 2023 and therefore it is assumed this funding stream will continue. However this has not been confirmed. With the shift to the business rate retention scheme in 2020/21, there is an implication that the funding will be rolled into a new funding regime rather than being a separate grant. Without any clarity this assumption is subject to uncertainty and poses a risk to the Medium Term Financial Strategy.

Other Grants

In addition to the Improved Better Care Fund, Public Health Grant, Dedicated Schools Grant and New Homes Bonus, the Council currently receives a number of other non ring-fenced grants from Government. For the majority of grants there is no guarantee as to their future receipt.

Table 9 Assumed other grants allocation 2020/21 to 2023/24

Other Grants	2020/21 £'m	2021/22 £'m	2022/23 £'m	2023/24 £'m
Flexible Homelessness Support Grant	1.700	1.550	1.550	1.550
Council Tax Support Admin Grant	0.200	0.180	0.180	0.180
Housing Benefit Subsidy Administration Grant	0.593	0.543	0.543	0.543
	2.493	2.273	2.273	2.273

We are assuming that the Flexible Homelessness Support Grant will be mainstreamed in 2020/21 at the equivalent rate as it is currently received. This grant is based on a formula which reflects relative homeless pressures and temporary accommodation. It is assumed there will be few changes in the Council's administration grants for Council Tax Support and Housing Benefit Subsidy.

There are a number of other grants which we have assumed do not continue, including the Homelessness Reduction Act – New Burdens; and the Lead Local Flood Authorities Grant.

Adults and Children's Social Care Grant

In the Budget for 2019/20, grant income of £1.586m has been included. During the budget setting process it was included as a one-off. The grant itself in 2019/20 amounted to £410m nationally for adult and children's services to ensure that pressures do not create additional demands on the NHS. There was freedom to use to improve the social care offer for older people, people with disabilities and children. There is no assumption that this will continue.

Dedicated Schools Grant and National Funding Formula

As previously reported, there has been a very significant cost pressure in respect of services for children and young people with special educational needs funded through the High Needs Block of the DSG. The number of Education Health and Care Plans has increased by almost 20% in the course of a year and this, combined with increasing complexity of need, has caused an overspend of around £2.5m on the High Needs block (in addition to a planned drawing on reserves of £0.4m already assumed in the budget).

As a result of this pressure, Bexley will carry forward for the first time a significant accumulated deficit on DSG reserves of around £2.8m. A deficit budget of £3.2m has been set for 2019/20 and further cost pressures estimated at around £1.2m are emerging in monitoring for 2019/20 which means that the accumulated deficit is likely to worsen to more than £7m by March 2020.

There is uncertainty as to whether the reserve has to be considered as part of the Section 25 statement. Advice is needed from CIPFA and the National Audit Office, considering the impact on Council reserves.

Public Health Grant

There was a small decrease in the grant (just over 2%) for 2019/20 which represents a continued trend of year-on-year reduction in grants as the lead up to the new retention system draws near. The Medium Term Financial Strategy currently assumes the funding will be rolled in rather than becoming a separate grant in 2020/21 and beyond. There have been no changes in the assumptions made. This is currently shown against the service line, with Service Expenditure, but in the future it will be separate and shown in the accounts as a "below the line" item.

Council Tax Income

Council Tax will continue to be an important source of revenue for the Council. The ability for councils to increase the amount of Council Tax charged to residents is

subject to a limit beyond which a referendum must be held. The previous Medium Term Financial Strategy assumed an increase of 1.99% but with the referendum limit being set at 3%, the Medium Term Financial Strategy assumes the Council sets the increase at 1.99%. The table below shows the difference in Council Tax if a decision was made to increase it by 2.99% rather than 1.99%. By 2023/24 it would amount to £4.870,

Table 10 Additional Income if the Council Increases Council Tax by maximum 2.99%

	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
Increase Council Tax by further 1% to 2.99%	1.116	2.298	3.548	4.870

Table 11 Properties by Council Tax Band

Band	Properties on Valuation List	Percentage %
A	4,647	4.69
B	10,708	10.82
C	29,953	30.25
D	27,605	27.88
E	19,389	19.58
F	4,954	5
G	1,704	1.72
H	49	0.05
Total	99,009	

The Council Tax base of 81,491 is an adjustment of the 99,009 properties (shown above) which adjusts for Band D equivalents and after the allowance for Council Tax support.

Growth / Housing Strategy

The Council's Growth Strategy has already set out how we could provide up to 30,000 new homes by 2050 if we can also put in place the infrastructure we need to support the people who live here now and will move here in future. A strong evidence base is key to this as is a robust Local Plan. We have the first and work on the second is now well underway. We will also publish a draft Housing Strategy in due course that will set out how we will seek to meet demand working with a range of public and private sector partners. Building the right homes in the right places is key to meeting a range of our corporate objectives.

Whilst the population growth associated with new homes built at scale increases demands on Council services, it also increases income from Council Tax and the New Homes Bonus. Over time the scheme has also been subject to a number of changes including the period over which the bonus is paid which reduced from six to four years and top slicing.

Adult Social Care Precept

From 2016/17, in light of national spending pressures in Adult Social Care services, the Government gave an additional flexibility to authorities to put an additional levy on Council Tax, recognised nationally as the Adult Social Care Precept. In 2016/17 the

maximum levy was 2%. Recognising the continuing pressures within Adult Social Care, the Government extended this flexibility for 2017/18 enabling authorities to deal with immediate pressures by allowing increases of up to 3%. The Council did not impose the maximum increase and instead retained the levy at 2%, keeping the same increase in 2018/19.

However, the Government also stipulated that the increase over 2017/18 to 2019/20 must not exceed 6% in total. The current planning assumptions are that the flexibility will be retained in 2019/20, whilst being under review to lower the burden on residents.

No announcements have been made for any further precept levying beyond 2019/20, so it was assumed that 2019/20 would be the final year for Bexley to levy the Adult Social Care Precept.

Should there be a continuation of the Adult Social Care Precept at a similar 2%, then the following additional income would arise

Table 12 Adult Social Care Precept – What if?

	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
Adult Social Care Precept – if continues	2.231	2.364	2.503	2.649
Cumulative	2.231	4.595	7.098	9.747

4. **Budget Pressures, Growth and Inflation**

Budget Pressures

There continues to be a level of uncertainty and risk for some areas where they have the potential to significantly impact on the Council's financial position. These include

- Demographic growth in children's and adults social care;
- Increasing number of children with higher educational needs;
- Increasing number of homeless households, including those families who have no access to the wider benefit system (referred to as No Recourse to Public Funds);
- Increasing numbers of children and vulnerable adults needing our support to transport them to school and their day opportunities;
- Volatile economic conditions – low interest rates and the prospect of increasing inflation.

Inflation

A further financial risk facing the Council is the impact of inflation. Most of the Council's contracts for goods and services which span more than one year contain inflation clause and although directorates have been successful in negotiating annual increases which are below inflation this will be a difficult position to maintain.

The Council remains part of the National Joint Council for Local Government Services for negotiating pay award arrangements. The medium term financial strategy anticipates that staffing costs will increase by 2% in each year of the plan.

Table 13 Forecasted impact of inflation 2019/20 to 2023/24

Inflation	2019/20 (Revised) £'m	2020/21 £'m	2021/22 £'m	2022/23 £'m	2023/24 £'m
Contract Inflation	2.689	6.571	10.586	14.736	18.981
Pay	2.000	3.195	4.420	5.680	6.985
Total Inflation	4.689	9.766	15.006	20.416	25.966

Bexley's Budget for 2019/20 made some revisions to contract inflation and pay, which have had an impact in the short term, but over the medium term the forecast includes increased costs for inflation, which have resulted in an increase in our expectations for service expenditure.

With regards to contract inflation there are some risks. Procurement have identified that there may be potential issues with some of the shorter period contracts (typically 3 years plus 2 years) where the price has been fixed for the duration of the contract. If the re-tender is on a like-for-like basis, contractors may bid at current price levels – with 5 years inflation. This is borne out in the Arboricultural tender where there has been no inflation for a number of years and prices have increased. For Grounds Maintenance, an agreed increase of £100,000 was granted for an extension. Cabinet are asked to note this growth in the contract sum in accordance with Financial Regulation 18 Variations to Contract Prices, paragraph (2) (c).

The contracts which are due to expire this financial year, together with the approximate value, are shown in the table below.

Table 14 Upcoming Contract Reprocurement

Contract	Contractor	Approx Value (p.a)
Coroner Post Mortem and Mortuary Services	Kings College Hospital Foundation NHS Trust	£100,000
Supported Living Services - 2c Wadeville Close	Aurora	£155,397
Supported Living Services - 2a/b Wadeville Close	MCCH	£450,546
Recycling (Mixed Garden and Food Waste)	Veolia ES (UK) Ltd - out to tender	£1,799,000
Recycling - Collection of Plastics, Cans and Glass	Veolia ES (UK) Ltd out to tender	£64,000 Income
Recycling - Waste Paper	FCC Environmental - out to tender	£550,000 Income
Recycling Containers - Supply of	Straight PLC - out to tender	£147,000
Public Health - STI Self Screening Service	The Doctors Laboratory - under review	£100,000
Public Health - NHS Health Checks	General Practitioners - under review	£132,000

Public Health - Integrated Sexual Health Services (ISHS)	Oxleas NHS Foundation Trust, Lewisham & Greenwich NHS Foundation Trust, Guys & St Thomas' Health Foundation Trust, Chelsea & Westminster NHS Foundation Trust, Barts Health Foundation Trust - Under review	£801,000
Public Health - Genito-Urinary Medicine (GUM)	Kent Community Health NHS - under review	£100,000
Early Years Support Services	Family Lives - under review	£130,000
Domestic Abuse - Victim Support	Bexley Womens Aid - under review	£200,000
Discharge Assessment Service - Lot 5 - Central	Eleanor Nursing & Social Care	£198,000
Discharge Assessment Service - Lot 3 - North	Eleanor Nursing & Social Care	£132,000
Discharge Assessment Service - Lot 2 - Central	Eleanor Nursing & Social Care	£396,000
Discharge Assessment Service - Lot 1 - South	Independent Homecare Team	£396,000
Day Care for Older People - Preferred Provider List	Avante, Bromley MIND, Inspire, Age UK	£411,000
Arboricultural Services	Gristwood & Toms Limited - out to tender	£350,000

Growth

A number of areas face significant growth pressures resulting from demographic changes and as well as increasing unit costs. In the main they support the strategic objectives set out in the Corporate Plan.

The single biggest area facing cost pressures over the medium term financial strategy remains Adult Social Care services and this is principally as a result of demographic changes including an increasing older population within the borough. However, the borough's population as a whole is estimated to grow by at least 4.6% by 2023, which will increase stress across many of the services and facilities provided by the Council.

The Council will manage growth based on careful consideration of all potential demographic changes (including age, income, health etc.), not just past trends and population increases. Officers continue to work on differing service delivery arrangements and exploring advances in technology to manage demand.

The medium term financial strategy currently provides £21.513m of growth for directorate services over the medium term as set out in the table below.

Table 15 Growth included in directorate budgets 2019/20 to 2023/24

Growth	2019/20 £'m	2020/21 £'m	2021/22 £'m	2022/23 £'m	2023/24 £'m
Adult Social Care demographics and growth	4.100	4.700	5.300	5.900	6.500
Homecare	0.400	0.400	0.400	0.400	0.400

Growth	2019/20 £'m	2020/21 £'m	2021/22 £'m	2022/23 £'m	2023/24 £'m
Business rates revaluation April 2017	0.050	0.100	0.150	0.200	0.250
Children's Services					
Demographic Changes	0.700	1.400	2.100	2.800	3.500
Financing of rolling programmes	(0.080)	0.168	0.468	0.768	1.068
Land charges - impact of transfer to HMLR	0.230	0.230	0.230	0.230	0.230
National Living Wage	1.500	1.500	1.500	1.500	1.500
No Recourse to Public Funds (amount that was originally held in contingency)	0.200	0.500	0.800	1.100	1.400
Reversal of 3 weekly collection savings	0.200	0.300	0.300	0.300	0.300
Reversal of assets business case savings	0.265	0.265	0.265	0.265	0.265
SEN Transport	0.100	0.400	0.700	1.000	1.300
Shortfall on financing costs	0.100	0.100	0.100	0.100	0.100
Homelessness	2.200	2.200	2.200	2.200	2.200
Welfare Reforms/Homelessness	0.500	1.000	1.500	2.000	2.500
Total Growth	10.465	13.263	16.013	18.763	21.513

5. Savings

For the 2019/20 Budget officers looked again at the previously approved savings, and added to these with new proposals. The efforts to close the gap continue. The Council is looking at proposals which give greater consideration to the future outcomes that the Council wants to deliver over the medium term.

Officers have also produced a Fees and Charges Strategy, which is underpinned by a Corporate Charging Policy. The policy will help set a clear, flexible and equitable framework for applying charges and fees to relevant council services; and to maximise income from charges; promote a unified corporate approach to the levying of charges, including defined processes for the setting of fees; develop standards and procedures for charging in respect of discretionary and statutory services for both individual users and community groups; and set out the basic corporate principles which are relevant to most services but which enable innovation and experimentation and provide a clear basis for decisions where the Council has discretion in setting charges. This is attached as Appendix A.

6. Overall Financial Position

Owing to the number of uncertainties detailed within this report, it is necessary to make certain key assumptions to help envisage the financial challenges Bexley faces over the coming years. The following assumptions are based on available information whilst being prudent around forecasts:

- Improved Better Care Funding will be mainstreamed in 2020/21 at the equivalent rate as it is currently received;
- Council Tax increase assumed to be set at 1.99% per annum;
- There will be a 1% increase in the Council Tax base;

- Current Medium Term Financial Strategy pressures are correct;
- Levies to external bodies will continue to be met from the Councils budget requirement; and
- Flexible Homelessness Support Grant will be mainstreamed in 2020/21 at the equivalent rate as it is currently received.

Taking into account the changes in new spending pressures that have become known over the summer and incorporating the assumptions around funding, the table below shows the latest impact on the budget gap:

Table 16 – Change in budget gap between February 2019 and May 2019

Budget Gap	2020/21 £'m	2021/22 £'m	2022/23 £'m	2023/24 £'m
February 2019	18.825	9.468	3.151	N/A
May 2019	19.071	10.077	4.254	4.631
Change	0.246	0.609	1.103	N/A

The Council prioritises spend by transforming services to improve outcomes; ensuring that Council is getting the most for the money that is spent, reducing costs and identifying new income streams by taking a commercial approach.

Section B – 2018/19 Revenue Outturn

1. Revenue Spending and Income 2018/19

The budget for 2018/19 was agreed in March 2018. Quarterly monitoring of spend against budget continued throughout the year. The position as at the end of the third quarter was reported to Members in February 2019 as part of Council Tax setting for the current year. At that time, there was a £2.911m expected overspend compared to original plans.

The table below provides a summary of the outturn position by Directorate. This leaves a provisional net outturn position for service budgets of a £1.814m overspend. Once corporate budgets and funding have been taken into account, there is an underspend on the general fund of £1.715m. However the outturn also considers the situation with regards to the Schools, and a deficit here of £2.715m results in an outturn position overall of a £1m overspend.

Table 17 – Budget, Outturn and Variation 2018/19 by Directorate

Directorate	Current Approved Budget 2018/19 £'000	Outturn 2018/19 £'000	End of Year Variation 2018/19 £'000 (+) – overspend (-) – underspend
Chief Exec	5,746	6,235	489
Childrens and Education*	58,039	57,752	(287)
Adults and Public Health	48,462	51,535	3,073
Places and Communities	65,507	65,700	193
Finance and Corp Services	6,507	4,853	(1,654)
Net service outturn	184,261	186,075	1,814
Corporate Budgets	(23,045)	(24,253)	(1,208)
Aggregate External Funding	(161,216)	(163,357)	(2,321)
General Fund Outturn	-	(1,715)	(1,715)
Schools	-	2,715	2,715
Outturn	-	1,000	1,000

Note: * Childrens and Education relates to the Council services, Bexley's Schools are shown separately.

The main variations across Services follows.

Chief Executive

In Quarter 3 the forecast outturn for the Directorate was an overspend of £0.296m. This has increased so now the outturn position is showing an overspend of £0.489m. Significant end of year variations are included Development Control and Land Charges (£0.1m), due to staffing costs and underachievement of income for land charge fees; and Legal Services (-£0.2m) where there was an overachievement of income from planning agreements which are difficult to predict combined with an underspend on staffing.

Children and Education

In Quarter 3 the forecast outturn for the Directorate was an overspend of £0.098m. The Directorate has ended the financial year with an underspend of £0.287m. There was a broadly balanced outturn position for social care and an underspend on education services. The majority of London Boroughs have been forecasting significant overspends on Children's Services, so Bexley's outturn position appears unusually favourable.

The main financial pressure within social care related to staffing. Budget monitoring in the first half of the financial year highlighted an overspend of £0.7m due to an increased level of agency staff covering key professional posts. The level of agency staff was reduced in the second half of the year in order to curtail the overspend. However, management of the staffing budget will continue to require close attention given the challenges associated with recruiting and retaining permanent social workers and there has been further investment in an additional cohort of newly qualified social workers through Bexley's Social Work Academy since September.

Other overspends in social care related to increasing numbers of care leavers (£0.2m); a higher level of payments to support families by social work teams (£0.2m) for which additional controls have now been implemented; and a reduction in expected Troubled Families grant (£0.2m) notified late in the year.

These pressures were offset by underspends on specialist placements (-£0.4m) together with underspends and additional inter-authority income for in-house placements and adoption services (-£0.8m). The net cost to Bexley (after Government grants) of supporting unaccompanied-asylum seekers was also lower than budgeted (-£0.3m).

The main cost pressure within education related to transport for children and young people with special educational needs. At one point the overspend was heading for £0.6m, but management action reduced this to £0.4m by year end. This overspend was more than offset by additional income from the Dedicated Schools Grant in support of statutory duties (-£0.7m) and from trading with schools (-£0.1m).

Adult Social Care and Public Health

In Quarter 3 the forecast outturn for the Directorate was an overspend of £3.121m. This overspend reduced slightly to £3.073m. The overall position has remained broadly in line with this position through the year.

In the final quarter of the 2017/18 financial year a number of factors came to light which indicated that the underlying adult social care cost base was higher than had been previously understood. Unfortunately by the time the extent of the additional financial pressure was fully identified it was too late to amend budget assumptions. As a result the service started the 2018/19 financial year with a significant discrepancy between the cost base – particularly for home care and residential care services – meaning that a significant overspend was unavoidable.

In addition to these baseline pressures, there was slippage in delivery of savings, primarily relating to the staffing budget where implementation of new management structures and redesigned pathways has taken longer than originally planned. Furthermore, a severe escalation in expenditure on the Discharge to Assess hospital discharge scheme between February and May 2018 could, if sustained, have resulted in a further £2.3m pressure. In the absence of management action to address the pressure areas, adverse variances could have totalled £7.4m.

In response to this serious financial outlook the service identified in the first quarter of the year a series of mitigations which were put into place, including short-term staff savings, reviews of high cost placements, negotiations with providers to reduce inflation-linked fee uplifts, stricter controls on hospital discharge arrangements and use of non-recurring funding streams. These mitigations reduced the potential pressures to around £3.2m as reported in quarter 1 monitoring.

There has been some additional pressure arising from an increase in home care hours in the first part of the financial year and from the financial impact of the cohort of young people transferring in summer 2018 from special educational needs provision to adult social care. These costs have been offset by further grant funding and a higher than budgeted level of contributions from health where the Council is commissioning packages of care which address health needs.

The 2019/20 budget includes growth of £3.9m for adult social care to address the underlying discrepancy between cost base and last year's budget.

Places and Communities

In Quarter 3 the forecast outturn for the Directorate was an overspend of £0.890m. The final outturn for the Directorate is an overspend of £0.193m. Significant end of year variations include Parking income (-£1.6m). There has been additional income as a result of the change in accounting practice from a cash basis, where the Council accounted for income on a receipt basis, to an accrual basis in line with the Council's accounting policy.

In Major projects and schools' admissions staffing (-£0.2m), vacant posts have resulted in an underspend. These posts will be filled in 2019/20. There was also increased income from Barnehurst Golf Course contributing to the underspends (-£0.1m).

For Highways litter enforcement income (-£0.1m), additional income was due to higher penalty notices being issued which has been difficult to project and forecast. On Highways reactive works and cleansing (-£0.1m), the underspend was primarily due to the increased creditors limit.

Housing was forecast to overspend by £1.7m as at quarter three, this overspend has increased by £0.7m to £2.4m primarily due to the following:

- The retendering of approximately 700 contract and framework TA supply has resulted in increased costs of 25% during 2018/19. The budget assumed that this retendering increase would be 5%.
- The number of clients accepted as homeless has increased by 60 from 2018/19, but the budget assumed no growth in homeless acceptances. There were 1383 households provided with TA at the end of March 2019.
- Supply of available affordable rented unit lettings declined by a further 50 units compared to 2017/18 to 397 lettings in 2018/19, with this supply also required to help decant existing social tenants from regeneration schemes.
- A doubling of the number of clients approaching the service as homeless has put pressure on the staffing budget.
- Initiatives included in budget forecasting have not had the expected impact in the current year producing a shortfall of £0.5m

Finance and Corporate Services

In Quarter 3 the forecast outturn for the Directorate was an overspend of £0.406m. The final outturn is an underspend of £1.043m. Officers undertook a review of historic balances on Council Tax and Business Rates has been undertaken which has identified some additional, one-off credits (-£2.3m) which need to be applied in 2018/19.

Other significant variations included Exchequer Services (-£0.3m) with an underspend resulting from higher than expected Court Cost Income and a lower than anticipated contribution to bad debt provision.

Capital Programme abortive costs (£0.6m) relating to Nags Head, Wilde Road and Bridge Road which were previously capitalised for schemes previously considered by the Council. The costs had to be written off to revenue in accordance with financial reporting standards. New schemes are being developed by the Regeneration and Assets team for future consideration by the Planning Committee. An overspend on Business Support (£0.1m) was partly attributable to a pressure on the current staffing budget in comparison to establishment costs. Budgets have been realigned in 2019/20.

Corporate Budgets

Corporate Budgets are considered to be non service specific expenditure and include financing and investment costs, levies, movements in reserves, other operating income and expenditure and statutory adjustments

The table shows an outturn underspend of £1.208m for Corporate Budgets. In quarter 3 the forecast outturn on Contingency was an underspend of £1.9m. For the final outturn the underspend on Contingency had increased to £2.5m as there were fewer calls on the contingency budget which was set up at the start of the year. For 2019/20 the Contingency Budget has been reduced as part of the Budget setting process.

Under International Financing Reporting Standard (IFRS) 9 we have to review any long term loans we give out and consider collectability based on the financial performance of the companies we have given the loans to. We have prudently made an impairment provision of £0.3m for Bexley Co and £0.45m for the Engine House (formerly the Thames Innovation Centre).

Virement

Travel assistance for children and young adults from 0-25 years old as well as arrangements for adults are currently budgets within Children Services and Adults'. A review has been undertaken and there is an agreement that the planned savings would be more effectively managed by transferring the service and budgets to Major Projects, Infrastructure and Delivery within the Place and Communities Directorate. Cabinet approval is sought for the budget transfer in line with the scheme of virement in the Financial Regulations (Financial Regulation 7, Annex 2 Scheme of Virement). The Children's Budget is £2.556m and the Adults' Budget is £0.943m. The Services would then transfer subject to a robust implementation process.

2. Treasury Management Annual Report 2018/19

The annual report on the treasury management strategy is set out below, which is required to comply with the CIPFA Code of Practice on Treasury Management. All treasury management activities during 2018/19 were in accordance with the Annual Strategy approved by Council in March 2018. After raising rates in August 2018 to 0.75%, the MPC votes unanimously to keep the base rate on hold. The Bank of England predicted a gradual increase in inflationary pressures. As a result, investment rates have remained at very low levels for all periods.

The Council's investment balance as at 31 March 2019 was £31.8m and a further £9.8m was outstanding from advance payments to the Pension Fund in respect of employer and employee contributions. A significant proportion of the investment balances is earmarked Council Funds and deposits made on behalf of schools. Investments were placed only with those banks and building societies who met the Council's approved criteria and no limits were exceeded. During 2018/19 the Council earned £0.04m on its investments for periods of less than one year, with a return of 0.6% as compared to the 7 Day benchmark return of 0.6%.

In addition, the savings proposals for 2018/19 included investing in diversified growth products and property funds with the aim of achieving enhanced investment returns over the medium to long term. The Council currently has £15m invested in diversified growth products and £12.5m invested in property funds. The International Financial Reporting Standard (IFRS) 9 came into effect in 2018/19 and these investments are deemed not to meet the SPPI test (Solely Principal plus interest). Therefore any unrealised gain and loss is taken to the Council's Comprehensive Income and Expenditure account and not reserves. The impact on the General Fund is mitigated by a Statutory Override that is in place for the next five years.

The Council currently had £3m in a five year Solar Bond, providing an annual return of 4%. This investment was made following extensive due diligence coordinated with oneSource partner authorities. Short-term variations in interest earnings will be managed through the Financing Reserve.

The Council took £32m new long-term debt during the year which was fixed at an average rate of 2.33%. As at 31 March 2019 the Council had £202.5m fixed rate long-term debt at an average rate of 3.5%, incurring annual interest payments of £6.4m. No debt repayment/restructuring exercises took place during the period.

Section C - Capital Outturn 2018/19 and updated Capital Programme for 2019/20

1. Capital Outturn Report 2018/19

The approved Capital budget for the financial year 2018/19 was £88.3m, of this, actual capital expenditure at the end of the financial year 2018/19 is £67.7m

In order to allow the completion of 2018/19 agreed projects in the 2019/20 financial year, these ongoing projects will be added to the 2019/20 capital programme, and Members will be asked to approve the carry forward part of the Medium Term Financial Strategy (MTFS) in July 2019.

The table below illustrates the 2018/19 capital expenditure along with how this was funded:

Table 18 – Capital Outturn 2018/19

	2018-19 Capital Outturn £'m	FUNDING					Reserves £'m
		Grants & Other Contribution £'m	s.106 & CIL £'m	Capital Receipts £'m	Capital Funded from Revenue £'m	LBBexley Borrowing £'m	
Growth	29.822	1.489	0.166	1.935	-	26.232	-
Health & Social Infrastructure	12.839	3.009	2.719	0.287	0.500	6.324	-
Green Infrastructure, Environment & Leisure	1.135	0.400	-	0.379	-	0.357	-
Culture	0.068	0.019	-	0.005	-	0.044	-
Digital Infrastructure	0.192	0.003	-	0.189	-	-	-
Schools & Education	11.334	11.334	-	-	-	-	-
Transport Infrastructure	9.776	5.057	-	0.004	-	4.715	-
Corporate Assets & Other Schemes	1.383	0.070	-	0.007	-	1.071	0.234
Capital Investments	1.137	0.014	-	-	-	1.123	-
Total Capital Expenditure	67.686	21.394	2.886	2.805	0.500	39.866	0.234

The use of resources to finance capital spend is changing over time as less and less capital receipts are being generated from the sale of assets and greater reliance, particularly for the large regeneration schemes, is being placed on the use of borrowing.

As the percentage of capital expenditure financed from borrowing increases, so does the revenue financing costs associated with the additional borrowing required which puts further pressure on the Council's revenue budget.

A further review of the existing capital programme will be undertaken in 2019/20 with management asked to carefully consider older schemes with the aim of freeing up capital resources to reduce the pressure caused by the additional capital financing costs from the 2019/20 capital programme. It is worth noting, as it is sometimes taken for granted, that Capital expenditure benefits the Council long term. The ongoing benefits of Capital investment stretch out across all Directorates and impact all aspects of services provided by the council.

The final capital outturn variance is compared with the Capital Programme forecast approved by Cabinet on 25 February.

Table 19 – Capital Outturn Variance Vs Approved Capital Programme 2018/19

	Actual 2018/19	Current Programme 2018-19	Variance to Current Programme
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Growth	29.822	41.024	(11.202)
Health & Social Infrastructure	12.839	14.698	(1.860)
Green Infrastructure, Environment & Leisure	1.135	1.508	(0.373)
Culture	0.068	0.279	(0.211)
Digital Infrastructure	0.192	0.300	(0.108)
Schools & Education	11.334	12.945	(1.611)
Transport Infrastructure	9.776	13.556	(3.780)
Corporate Assets & Other Schemes	1.383	2.691	(1.308)
Capital Investments	1.137	1.294	(0.157)
Total Capital Expenditure	67.686	88.295	(20.610)

For further detail relating to Capital Variances please see Appendix B.

2. Updated Capital Programme for 2019/20

For the updated Capital programme please see Appendix C.

Summary of Other Implications

None

Local Government Act 1972 – Section 100d List of Background Documents

Statement of Accounts <https://www.bexley.gov.uk/about-the-council/council-budgets-and-spending/annual-accounts>

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