


AUDIT COMMITTEE

**Date:- Monday, 30 July 2018 Venue:- Town Hall, Moorgate Street,
Rotherham. S60 2TH**
Time:- 2.00 p.m.

AGENDA

1. To determine whether the following items should be considered under the categories suggested in accordance with Part 1 of Schedule 12A (as amended 2006) of the Local Government Act 1972
2. To determine any item(s) which the Chairman is of the opinion should be considered later in the agenda as a matter of urgency
3. Apologies for Absence
4. Declarations of Interest
5. Questions from Members of the Public or the Press
6. Minutes of the previous meeting held on 19th June, 2018 (Pages 1 - 11)
7. Audit Committee Annual Report 2017/18 (Pages 12 - 21)
8. Audit Committee Forward Plan (Pages 22 - 29)
9. Final Statement of Accounts/External Audit ISA 260 Report (Pages 30 - 227)
10. Annual Treasury Management Report and Actual Prudential Indicators 2017/18 (Pages 228 - 242)
11. Annual Governance Statement (Pages 243 - 267)
12. Exclusion of the Press and Public
That under Section 100(A) 4 of the Local Government Act 1972, the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in Paragraph 3 of Part 1 of Schedule 12(A) of such Act indicated, as now amended by the Local Government (Access to Information) (Variation) Order 2006 (information relates to finance and business affairs).

13. Strategic Risk Register (Pages 268 - 280)
14. Items for Referral for Scrutiny
15. Date and time of next meeting
Tuesday, 2nd October, 2018 at 2.00 p.m.



Chief Executive.

Membership 2018/19

Chairman – Councillor Wyatt.
Vice-Chairman – Councillor Walsh
Councillors Cowles, Evans and Vjestica
Bernard Coleman (Independent Person).

AUDIT COMMITTEE
19th June, 2018

Present:- Councillor Wyatt (in the Chair); Councillors Cowles, Vjestica, Walsh and Bernard Coleman (Independent Person).

An apology for absence was received from Councillor Evans.

1. DECLARATIONS OF INTEREST

There were no Declarations of Interest made at the meeting.

2. QUESTIONS FROM MEMBERS OF THE PUBLIC OR THE PRESS

There were no members of the public or press present at the meeting.

3. MINUTES OF THE PREVIOUS MEETING HELD ON 6TH FEBRUARY, 2018

Consideration was given to the minutes of the previous meeting of the Audit Committee held on 6th February, 2018.

Resolved:- That the minutes of the previous meeting of the Audit Committee be approved as a correct record of proceedings.

Arising from Minute No. 51(a) (Health Check), it was noted that the report from the independent health check had been received. It had found that the approach taken by the Committee was well developed and could be considered as an exemplar.

4. BRIEFING PAPER - GDPR COMPLIANCE PROGRESS

Marie Buxton, Head of Information Management, presented a summary of the Council's progress towards compliance with the General Data Protection Regulations (GDPR) as at March, 2018 and the outstanding actions.

Appendix 1 submitted provided details of work completed in Quarter 4 (January-March, 2018) which included:-

Phase 1 – Raise awareness, build accountability and gather information

- An Information Governance Framework and programme of work established and implemented
- Decision makers at all levels informed on the impact of GDPR
- A Council-wide 'information audit' established and implemented
- Review of IT systems and procedures in light of new information rights
- Review the resource and training requirements within the IM Team

Phase 2 – Plan and Prioritise (July-November, 2017)

- Recruit and appoint a Data Protection Officer
- Prioritise compliance activity and remedial measures based on areas with high risk and most significant impact
- Embed Privacy Impact Assessment (PIA) guidance and process across the Council
- Conduct retrospective PIA's for riskier activities
- Embed the data breach guidance and process across the Council

Phase 3 – Implement changes (December, 2017-April, 2018)

- Review and update privacy standards and processes
- Review and update consent standards and processes
- Review and update information sharing (including confidentiality) standards and processes
- Review and update information rights, standards and processes

Phase 4 – Embed change, train and re-train (May-July, 2018)

- Implement the appropriate standards and processes in order to embed culture change
- Implement an appropriate training plan in order to embed culture change
- Implement the Communication Plan in order to embed culture change

Discussion ensued with the following issues raised:-

- There would be case studies highlighting where there had been gaps/good practice to learn from
- Identified risk – electronic record management
- Data sharing protocol
- The Council had signed up to an overarching information sharing protocol, as had organisations across South and West Yorkshire, and co-ordinated by the Health and Social Care Information Centre the aim of which was to ensure that everyone used the same standard paperwork in terms of sharing agreements. It also included the private sector. The representatives (approximately 60) met on a quarterly basis.

Resolved:- (1) That the report be noted.

(2) That a further report be submitted in 6 months.

5. PUBLICATION OF UNAUDITED STATEMENT OF ACCOUNTS 2017/18

Paul Stone, Head of Corporate Finance, presented the Draft Statement of Accounts 2017/18 which had been published on the Council's website on 31st May, 2018, as required under the Accounts and Audit Regulations 2015.

The publication of the unaudited accounts triggered a period of 30 working days (ending on 12th July, 2018) for local electors to exercise their rights to inspect the accounts and supporting records and to ask questions of the external auditor.

The external audit of the unaudited accounts had commenced on 11th June, 2018 with KPMG reporting their findings to the July meeting of the Committee.

The deadline for publishing the audited accounts was 31st July, 2018.

There had been no significant accounting policy changes to the accounts since 2016/17.

The Highlights Report (Appendix B) summarised the key financial disclosures reported in the 2017/18 draft Statement of Accounts and provided further detail on each of the key financial issues referred to above.

Resolved:- That the draft 2017/18 Statement of Accounts be received.

6. UPDATE REPORT ON THE USE AND OPERATION OF SURVEILLANCE AND ACQUISITION OF COMMUNICATIONS DATA POWERS

Neil Concannon, Legal Services, presented an update on the use of covert surveillance and covert human intelligence sources (CHIS) carried out by Council officers under the Regulation of Investigatory Powers Act 2000 (RIPA).

As previously with the Office of Surveillance Commissioners (OSC) the Council was required to notify IPCO of the number of directed surveillance/CHIS authorisations granted in each financial year. The annual return submitted in April for the 2017/18 financial year confirmed that there had been no such authorisations in that period nor had there been any such authorisations so far this calendar year.

The Council was also required to notify the Interception of Communications Commissioner's Office of the number of authorisations for the acquisition and disclosure of communications data granted each calendar year. There had been no such authorisations in 2017 nor had there been any this calendar year so far.

As reported at the 21st November, 2017 meeting of the Audit Commission, a corporate training day had been held for relevant officers from across all the Directorates focussing on the use of CHIS. The training had also covered RIPA and the use of social media which was a continually developing area and which was a line of enquiry during the OSC inspection.

The Council's Policies were last reviewed by the Committee in April, 2017 and amended to include a section on the use of social media in investigations as a result of recommendations made by the OSC in their inspection report. Since that time there had been no revised Home Office codes of practice issued. In December 2017 the IPCO had conducted a public consultation on some suggested amendments to those codes of practice including expanded guidance on the use of social media and guidance on the reporting of errors to IPCO when certain sections of the Investigatory Powers Tribunal 2016 were brought into force. However, to date, no revised codes of practice had been issued, the relevant sections of the 2016 Act had not been brought into force and there was no indication as to when that would happen.

Given that there had been no revised codes of practice issued by IPCO since the last RIPA and ACD Policies were set and no indication when it would happen, the current policies remained fit for purpose. However, where there was reference to ICO/IOCCO it should be replaced with IPCO.

Resolved:- (1) That it be noted that the Council had not made use of surveillance or acquisition of communication data powers under RIPA during 2017/18 or to date in 2018/19.

(2) That, in its current form, the Council's RIPA Policy and Acquisition and Disclosure of Communications Data Policy, except for minor amendments reflecting the name of the new regulator, be re-adopted.

(3) That a further update be submitted in 6 months' time.

7. EXTERNAL AUDIT AND INSPECTION RECOMMENDATIONS

Further to Minute No. 36 of the meeting of the Audit Committee held on 21st November, 2017, consideration was given to a report, presented by Michelle Hill, Performance Assurance Officer, providing details of recent and current external audits and inspections including the details of arrangements that were in place regarding the accountability and governance for implementing recommendations arising therefrom.

The report included detail of progress being made in respect of the following specific areas and Directorates:-

- the “Fresh Start” Improvement Plan;
- Adult Care and Housing;
- Children and Young People's Improvement Plan;
- Liberty House
- Regeneration and Environment Services
- Finance and Customer Services

The summary of recommendations from “Active” Inspection and Audit Action Plans was appended to the submitted report.

The Audit Committee's discussion of this matter highlighted the following salient issues:-

- Liberty House had monthly visits from an independent visitor, externally commissioned to ensure independence and objectivity. The report was sent monthly to Ofsted
- All the actions in respect of the Fresh Start plan were now complete or in place. Performance was still monitored through the Strategic Leadership Team

Resolved:- (1) That the report be received and its contents noted.

(2) That the governance arrangements that were currently in place for monitoring and managing the recommendations from external audits and inspections, as now reported, be noted.

(3) That the Audit Committee continue to receive regular reports in relation to external audit and inspections and the progress made in implementing recommendations.

8. ANNUAL GOVERNANCE STATEMENT 2017-18

Consideration was given to the 2017-18 draft Annual Governance Statement (AGS) presented by Simon Dennis, Corporate Risk Manager.

In producing the 2017-18 AGS, the Council had gathered sufficient evidence to support the statements that it had made. Each Strategic Director had been asked to oversee a self-assessment of governance in their Directorate. This had comprised of completion of a self-assessment form based on the Principles and Sub-Principles in the Local Code by each Assistant Director as well as a review and update of the detailed issues raised in the 2016-17 AGS. Each Strategic Director was also required to sign a Statement of Assurance based on the information arising from their review of current and previous governance issues.

The Corporate Governance Group had reviewed evidence contained within the returned Statements of Assurance as well as considering which issues were of sufficient significance to require reporting in the Statement. The Group had then produced the AGS.

The AGS would be updated by 31st July to reflect any issues that emerged between now and the completion of the final Statement of Accounts. It would also take account of any comments made by the Committee and external auditor.

The overall conclusion of the review of governance was that the Council had continued to make good progress on its improvement journey throughout 2017-18 which was supported by comments made by the

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Commissioners in their most recent progress review. Positive progress continued to be made and this was supported both by the further restoration of powers to the Council throughout 2017/18 by the Secretary of State as well as by the positive outcome from the Ofsted re-inspection.

Although at present, Commissioners retained oversight of Children's Safeguarding and Children's Social Care, the evidence in place throughout 2017/18 supported a conclusion that overall the Council had demonstrated good governance and met its Best Value duty throughout the year.

Consultation had taken place with the Strategic Directors, the Strategic Director of Finance and Customer Services, the Assistant Director Legal Services and the Chief Executive.

Recommended practice required the Leader of the Council and the Chief Executive to sign the Annual Governance Statement prior to its publication.

The Audit Committee's discussion of this matter highlighted the following salient issues:-

- Medium Term Financial Strategy and particularly the pressures on the Council from demands in Children's Services
- The AGS would be updated to take account of any recommendations from the Peer Review and any announcement by the Secretary of State
- Update with regard to the Public Services Network certificate

Resolved:- (1) That the 2017-18 draft Annual Governance Statement be noted.

(2) That the requirement for the Leader and Chief Executive to sign the Statement prior to the publication of the Annual Governance Statement by 31st July, 2018, be noted.

(3) That the final version of the Annual Governance Statement be submitted to the 30th July meeting of the Audit Committee following completion of the audit of accounts by KPMG.

9. INTERNAL AUDIT ANNUAL REPORT 2017 - 2018

Consideration was given to a report presented by David Webster, Head of Internal Audit, on the role of Internal Audit, the work completed during the 2017/18 financial year and highlighted the key issues that had arisen. It provided the overall opinion of the Head of Internal Audit on the adequacy of the Council's control environment as well as the performance of the Internal Audit function during 2017/18.

Appendix 1 of the report submitted included:-

- Legislative requirements and Professional Standards
- The Head of Internal Audit's annual opinion on the control framework, risk management and governance
- Resources and audit coverage during the year
- Summary of audit work undertaken during 2017/18 including both planned and responsive/investigatory work
- Summary of other evidence taken into account for control environment opinion
- Summary of audit opinions and recommendations made
- Internal Audit Performance Indicators

Based upon internal audit work undertaken and taking into account other internal and external assurance processes, it had been possible to complete an assessment of the Council's overall control environment. An opinion of Partial Assurance or No Assurance had been given in 13 areas subject to audit. In the opinion of the Head of Internal Audit, the Council had overall an adequate and effective framework of governance, risk management and control.

Action plans had been agreed with management in respect of all final audit reports issued.

Consideration was also given to Appendix A which set out a summary of the audit opinions and recommendations that had arisen from audit work completed during the period.

Discussion ensued on the report with issues raised/clarified around:-

- Staffing of the Internal Audit team
- Introduction of new software

Resolved:- (1) That the Internal Audit work undertaken during the 2017/18 financial year and the key issues that had arisen therefrom be noted.

(2) That the overall opinion of the Head of Internal Audit be noted.

(3) That the information contained regarding the performance of Internal Audit during 2017/8 be noted.

10. INTERNAL AUDIT STRATEGIC PLAN 2018/19 TO 2020/21

Consideration was given to a report, presented by the Head of Internal Audit, concerning the Internal Audit Strategic Plan for the 3 year period 2018/2019 to 2020/2021.

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The report explained the Internal Audit approach to the development of the Strategic Plan, as well as detailing the specific activities to be reviewed during the 3 years' period of the Plan. It was noted that the Plan reflected a comprehensive risk assessment process, which also included discussions with the Council's Strategic Directors and Assistant Directors to obtain their views of key risks and areas for audit coverage.

Outline scopes for each review were submitted. The following types of audit work would be completed:-

- Risk based work
- System based work
- Follow up audits
- Advisory work
- Value for money
- Grant claims
- Schools
- Counter fraud work

The Committee discussed the following salient issues:-

- The Team had a contingency of 50 days for any new risks/ad hoc management risks
- Some "red" risks did not have a number of days assigned to them. This was possibly due to the Directorate taking action and was not to be audited until after that had taken place. "Green" risks may be reviewed to check that the categorisation was still valid
- There was nothing Audit could contribute in terms of the Finance risks

Resolved:- (1) That the report be received and its contents noted.

(2) That the Internal Audit Strategic Plan for the 3 years' period 2017/2018 to 2019/2020, as now submitted, be approved.

(3) That reports about the progress of the implementation of the Internal Audit Strategic Plan 2017/2018 to 2019/2020 be submitted to meetings of the Audit Committee at regular intervals.

11. AUDIT COMMITTEE PROSPECTUS AND FORWARD WORK PLAN 2018/19

David Webster, Head of Internal Audit, presented a draft 2018-19 Prospectus which outlined the Audit Committee's objectives, how the Committee would operate and how it would deliver its objectives through its work plan.

It highlighted key activities to be carried out in relation to risk management, corporate governance, accounting and internal and external audit.

Resolved:- That the 2018-19 Audit Committee Prospectus be approved.

12. ITEMS FOR REFERRAL FOR SCRUTINY

Resolved:- That the Audit Committee Prospectus and Forward Work Plan 2018/19 be forwarded to the Overview and Scrutiny Management Board.

13. EXCLUSION OF THE PRESS AND PUBLIC

Resolved:- That under Section 100(A) 4 of the Local Government Act 1972, the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in Paragraph 3 of Part 1 of Schedule 12(A) of such Act indicated, as now amended by the Local Government (Access to Information) (Variation) Order 2006 (information relates to finance and business affairs).

14. INTERNAL AUDIT PROGRESS REPORT FOR THE PERIOD 1ST JANUARY TO 31ST MAY 2018

Consideration was given to a report presented by the Head of Internal Audit which provided a summary of Internal Audit work completed during 1st January to 31st May, 2018, and the key issues that had arisen therefrom.

It was noted that there had been no further changes to the Audit Plan since those reported to the November meeting of the Audit Committee.

Performance against key indicators had improved but in general the whole year targets had not been met. There had been a good start to 2018/19 with the Team engaged in a number of investigations, impacting upon the completion of the audit plan and continuing into the new financial year.

Summary conclusions in all significant audit work concluded during the period were set out in Appendix A of the report submitted. 8 audits had been finalised since the last Audit Committee meeting one of which had No Assurance and 2 had Partial Assurance. The remaining 5 all had Substantial Assurance or Reasonable Assurance.

Reference was also made Appendix C which detailed significant responsive work completed since the last Audit Committee.

Appendix D summarised Internal Audit's performance against a number of Indicators. Appendix E showed outstanding recommendations that had passed their original due date. Where they had been deferred, the

comment received from the Manager was given but where there was no change to the due date or comment, the Manager had not updated the system. The new software system was launched at the beginning of May so was not fully embedded; results would improve in the future.

Discussion ensued on the report with the following issues raised/clarified:-

- Any audit that received a “No Assurance” issued was immediately referred to the Chief Executive for action and follow up
- All “No Assurance” and “Partial Assurance” reports were also submitted to the Corporate Risk Manager for consideration as to whether they were included on the individual Directorate risk registers

Resolved:- (1) That the Internal Audit work undertaken since meetings of the Audit Committee, 1st January to 31st May, 2018, and the key issues arising therefrom be noted.

(2) That the information contained regarding the performance of Internal Audit and the actions being taken by management in respect of the performance be noted.

15. STRATEGIC RISK REGISTER

The Strategic Director of Adult Care and Housing and Councillor Roche, Cabinet Member, Social Care and Health, presented the Directorate Risk Register and risk management activity in particular highlighting:-

- How the Register was maintained/monitored and at what frequency
- Cabinet Member involvement
- How risks were included on/removed from the Register
- Anti-fraud activity in the Directorate

Discussion ensued with the following issues raised/clarified:-

- The risk factors would change once the review of the Learning Disability Service review was complete
- Direction of travel for the Adult Social Care budget
- Senior management staffing situation
- Workshop with risk owners to take place
- Deprivation of Liberty Safeguards
- Review of Rothercare
- Managing the market
- Universal Credit

Resolved:- That the progress and current position in relation to risk management activity in the Adult Care and Housing Directorate be noted.

16. DATE AND TIMES OF MEETINGS FOR THE 2018/19 MUNICIPAL YEAR

Resolved:- That meetings be held during the 2018/19 Municipal Year as follows, all commencing at 2.00 p.m.:-

Monday, 30th July 2018

Tuesday, 2nd October

27th November

29th January, 2019

26th March

Summary Sheet

Council Report:

Audit Committee – 30 July 2018.

Title:

Audit Committee Annual Report 2017/18

Is this a Key Decision and has it been included on the Forward Plan?

No

Strategic Director Approving Submission of the Report:

Judith Badger (Strategic Director of Finance and Customer Services)

Report Author(s):

David Webster (Head of Internal Audit)

Ward(s) Affected:

All wards

Executive Summary:

The purpose of the Annual Report 2017/18 is to bring together in one document a summary of the work undertaken by the Audit Committee. The Chartered Institute of Public Finance and Accountancy (CIPFA) has issued guidance to local authorities to help ensure that audit committees operate effectively. The guidance recommends that audit committees should report annually on how they have discharged their responsibilities. A copy of the draft annual report of this audit committee is attached at Appendix 1. A copy of the Audit Committee's Terms of Reference is included in Appendix 1 for information.

Recommendation:

The Audit Committee is asked to

- a. Note the production of the Audit Committee Annual Report 2017/18.
- b. Consider and approve the draft report prior to its submission to the Council.

Background Papers:

Relevant reports presented to the Audit Committee and minutes of the meetings of the Audit Committee.

Consideration by any other Council Committee, Scrutiny or Advisory Panel:

No

Council Approval Required:

No

Exempt from the Press and Public:

No

Title:

Audit Committee Annual Report

1. Recommendations

The Audit Committee is asked to:

- **Note the production of the Audit Committee Annual Report 2017/18.**
- **Consider and approve the draft report prior to its submission to the Council.**

2. Background

- 2.1 The Audit Committee is responsible for overseeing the Council's corporate governance, audit and risk management arrangements. The Committee is also responsible for approving the Statement of Accounts and the Annual Governance Statement. The Committee's specific powers and duties are set out in section 9 of the Constitution under the Terms of Reference of the Audit Committee. A copy of the Terms of Reference is attached at Appendix 2 for information.
- 2.2 Audit Committees are a key component of corporate governance and provide an important source of assurance about the organisation's arrangements for managing risk, maintaining an effective control environment, and reporting on financial and other performance.
- 2.3 The Chartered Institute of Public Finance and Accountancy (CIPFA) issued guidance to local authorities to help ensure that audit committees are operating effectively. The guidance recommends that audit committees should report annually on how they have discharged their responsibilities.

3. Work undertaken during 2017/18

- 3.1 The Audit Committee has met on five occasions in the year to 31 March 2018, in accordance with its programme of work.
- 3.2 During this period the Committee has assessed the adequacy and effectiveness of the Council's risk management arrangements, control environment and associated counter fraud arrangements through regular reports from officers, the internal auditors and the external auditors. The Committee has sought assurance that action has been taken, or is otherwise planned, by management to address any risk related issues that have been identified during the period. The Committee has also sought to ensure that effective relationships continue to be maintained between the internal and external auditors, and between the auditors and management.
- 3.3 The specific work undertaken by the Committee is set out in Appendix 1.

4. Options considered and recommended proposal

- 4.1 This report is presented to enable the Audit Committee to fulfil its responsibility for reporting on how they have discharged their duties.

5. Consultation

5.1 None.

6. Financial and Procurement Implications

6.1 There are no direct financial or procurement implications arising from this report.

7. Human Resources Implications

7.1 There are no direct implications for HR arising from this report.

8. Implications for Children and Young People and Vulnerable Adults

8.1 There are no direct implications for Children and Young People and Vulnerable Adults arising from this report.

9. Equalities and Human Rights Implications

9.1 There are no direct Equalities or Human Rights implications arising from this report.

10. Accountable Officer(s):

David Webster (Head of Internal Audit).

**ROTHERHAM METROPOLITAN
BOROUGH COUNCIL**

**AUDIT COMMITTEE ANNUAL REPORT
2017/18**

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1. INTRODUCTION

- 1.1** While there is no statutory obligation to have such an arrangement, Audit Committees are widely recognised as a core component of effective governance and therefore reflect good practice. RMBC's Audit Committee is properly constituted and as such is given sufficient authority and resources by the Council. In effect, the Committee has the right to obtain all the information it considers necessary and to consult directly with senior managers. In line with best practice the Audit Committee can report its observations and concerns directly to the Council.
- 1.2** A local authority has a duty to ensure that it is fulfilling its responsibilities for adequate and effective internal control, risk management and governance, as well as the economy, efficiency and effectiveness of its activities. The Audit Committee has a key role in overseeing and assessing the internal control, risk management and corporate governance arrangements and advising the Council on the adequacy and effectiveness of those arrangements.
- 1.3** This role is reflected in the committee's Terms of Reference which are given in Paragraph 4 below.
- 1.4** The Audit Committee has six Members:
- Councillor Ken Wyatt – Chair
 - Councillor Bob Walsh – Vice Chair
 - Councillor Allen Cowles
 - Councillor Sarah Allen (April Meeting)
 - Councillor Sue Ellis (April Meeting)
 - Councillor Simon Evans (July meeting onwards)
 - Councillor Stuart Sansome (July meeting onwards)
 - Bernard Coleman

2 SUMMARY OF WORK UNDERTAKEN IN 2017/18.

The Audit Committee completed the following during 2017/18

2.1 EXTERNAL AUDIT

Received and considered the external auditor's annual audit letter in respect of the 2016/17 audit year. The Committee was pleased to note that the external auditors had given an unqualified value for money audit opinion and an unqualified opinion on the financial statements. They also stated that the Narrative Report was consistent with their understanding and that the Annual Governance Statement was consistent with their understanding and compliant with the CIPFA/SOLACE framework on good governance in local authorities.

Received and considered the external auditor's plan for the audit of the 2017/18 financial statements and the review of the Council's arrangements for securing value for money.

Received and considered the detailed results of the external auditor's work in relation to the audit of the 2016/17 financial statements of the Council. The Committee was pleased to note that the auditors had given an unqualified audit opinion with no audit adjustments necessary other than presentational changes, and an unqualified value

for money conclusion stating that the Council has made proper arrangements to ensure it took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Received and considered the external auditor's report on Grant returns and certification work. The Committee was pleased to note that unqualified opinions had been given on all three grants audited..

Held an informal private meeting with the external auditors to discuss their work.

2.2 INTERNAL AUDIT

Continued to oversee the internal audit arrangements for the Council. This included approving changes to the Internal Audit Charter.

Received and considered the results of internal audit work performed in respect of each Directorate. Monitored the progress made by management during the period to address identified control weaknesses.

Received and approved the Internal Audit Plan for 2017/18. The plan ensures that limited internal audit resources are prioritised towards those systems and areas which are considered to be the most risky or which contribute most to the achievement of the Council's corporate objectives.

Monitored the delivery of the annual Internal Audit plans through regular update reports presented by the Head of Internal Audit. Reviewed variations to the audit plans which were considered necessary to reflect new or changed Council priorities.

Monitored the performance of the Internal Audit team through regular update reports.

Received and considered the Annual Report of the Head of Internal Audit for 2016/17 which provided an overall opinion on the Council's control environment. The Committee noted that the work of internal audit is primarily focused on those areas which represent the highest risk for the Council. The Head of Internal Audit confirmed that the Council overall had an adequate and effective framework of governance, risk management and control but with caveats around specific areas and improvements during the year.

Received and considered the results of the internal assessment against Public Sector Internal Audit Standards and the implementation of the Quality Assurance and Improvement Plan.

Held an informal private meeting with the Head of Internal Audit to discuss the work of the internal auditors.

2.3 ANTI FRAUD AND CORRUPTION

Received and considered updates to the Anti-Fraud and Corruption Policy and Strategy and the Anti-Money Laundering Policy and Strategy.

Received and considered the Anti-Fraud Annual Report, detailing performance by each type of fraud and the work undertaken as part of the National Fraud Initiative.

Received and considered updates on completed fraud investigations as part of the Internal Audit Progress Report.

2.4 RISK MANAGEMENT

Continued to oversee the Council's risk management arrangements and strategy.

Reviewed the progress made by the Council to identify and address corporate risks. This included consideration of the Strategic Risk Register.

Assessed the adequacy and effectiveness of each Directorate's risk management arrangements through consideration of the risks and mitigating actions identified in each Directorate's Risk Register. Presentations were received from Strategic Directors and Cabinet Members on their approach to risk management.

The Chair of the Audit Committee met with the Independent Health Check team in February 2018. Their report to the Commissioners included the following:-

"The Audit Committee contributes confidently to ensuring that risks are properly considered and managed. The approach taken by the Audit Committee is well developed. The Committee emphasises realism and full transparency in risk management and could be considered an exemplar in this regard."

2.5 CORPORATE GOVERNANCE

Considered changes to the Code of Corporate Governance prior to approval. The Code reflects the core principles and requirements of the CIPFA/SOLACE 'Delivering Good Governance in Local Government Framework'.

Considered and approved the Annual Governance Statement for 2016/17 of the Council. The Statement had been updated so that it aligned with the new corporate governance principles and framework. The Committee also reviewed the progress made by management to address significant issues identified in the 2015/16 Annual Governance Statement.

Received and considered the relationship between the Audit Committee and Overview and Scrutiny, resulting in the adoption of a protocol for the referral of issues between the Audit Committee and the Overview and Scrutiny Management Board.

Produced its own Prospectus for 2017/18 detailing the work to be undertaken by the Committee during the year.

2.6 FINANCE

Considered and approved the Statement of Accounts for 2016/17 for the Council.

Received and considered a report on the Code of Practice on Local Authority Accounting 2017/18. The principle change was in the timetable for the closure of the accounts, which needed to be published in draft form by 31st May 2018 and finalised by 31st July 2018.

Continued to review the Council's Treasury Management arrangements. This included reviewing the Annual Treasury Management Report for 2016/17 which covered the actual Prudential Indicators, and the Mid-Year update which included changes to the Investment Strategy for 2018/19.

2.7 OTHER

Received and considered updates on progress made to implement recommendations arising from external inspections.

Received and considered a report on the Council's use of surveillance and acquisition of communication data powers under the Regulation of Investigatory Powers Act 2000 (RIPA). There had been no usage of these powers by the Council during 2016/17.

Received an inspection report from the Office of Surveillance Commissioners in respect of the Council's arrangements to secure compliance with the statutory provisions which govern the use of covert surveillance. The Committee was pleased to note that the Council's arrangements for RIPA were as good as the best found in other local authorities.

3 TRAINING

The Committee receives training or a briefing before each meeting. During 2017/18 these included the Statement of Accounts, Treasury Management, the Code of Corporate Governance and Risk Management.

4. TERMS OF REFERENCE

The Council has established an Audit Committee comprising five non-executive members of the Council. The Committee will be attended by a representative of the Council's external auditors as well as senior officers of the Council. The Committee's remit is:–

- to consider all issues relating to audit matters, both internal and external;
- to monitor and review the effectiveness of risk management systems, including systems of internal control;
- to consider the preparation and monitoring of the internal audit plan;
- to consider summary reports of each internal audit and value for money study undertaken;
- to consider the external audit plan;
- to consider reports from the external auditor, including value for money, systems and final accounts audits;
- to review and monitor the performance of internal audit;
- to review and monitor the anti-fraud strategy and initiatives;
- to ensure the receipt of 'Best Value' from all audit resources;
- to review and monitor corporate governance matters in accordance with audit guidelines.

The Audit Committee will consider the external auditor's annual report on the Council's statement of accounts income and expenditure and will also consider the SAS 610 report from the external auditor. However, the external auditor's management letter will be presented to the full Council.

Summary Sheet**Council Report:**

Audit Committee 30th July 2018

Title:

Audit Committee Forward Work Plan

Is this a Key Decision and has it been included on the Forward Plan?

No

Strategic Director Approving Submission of the Report:

Judith Badger (Strategic Director of Finance and Customer Services).

Report Author(s):

David Webster (Head of Internal Audit).

Tel: 01709 823282 Email david.webster@rotherham.gov.uk

Ward(s) Affected:

None.

Executive Summary:

The report presents to the Audit Committee a forward work plan covering the next year. The plan shows how the agenda items relate to the objectives of the Committee. It is presented for review and amendment as necessary.

Recommendation:

The Audit Committee is asked to review the Forward Work Plan and suggest any amendments to it.

Consideration by any other Council Committee, Scrutiny or Advisory Panel:

No

Council Approval Required:

No

Exempt from the Press and Public:

No

Title:

Audit Committee Forward Work Plan.

1. Recommendations

The Audit Committee is asked to review the Forward Work Plan and suggest any amendments to it.

2. Background

2.1 Each year the Audit Committee publishes a Prospectus setting out the scope of its work, the standards it adheres to and its work programme for the year. The programme is subject to change and can be amended during the year to respond to any emerging areas of concern to the Committee. This report shows a rolling programme for the Committee for the forthcoming year.

3. Details

3.1 Local Government Audit Committees should comply with the Chartered Institute of Public Finance and Accountancy's Position Statement and Practical Guidance for Audit Committees. The scope of the Audit Committee's responsibilities and its work plan are designed to ensure the Committee meets the CIPFA standards.

3.2 Key Audit Committee activities, reflected in the Prospectus and work plan, include:

- Satisfying itself and others that the Annual Governance Statement reflects the Council's arrangements and position.
- Monitoring the effectiveness of the internal control environment and assurances obtained from its operation.
- Consider the effectiveness of risk management.
- Ensuring Internal Audit is independent and effective.
- Review the responsibilities of internal audit and ensure it has the necessary resources to enable it to function in accordance with professional standards.
- Review the internal audit work plan and receive reports on the results of internal audit work.
- Reviewing the Council's arrangements for managing the risk of fraud.
- Reviewing the external auditor's annual audit plan and ensuring it is consistent with the scope of the audit engagement.
- Reviewing the findings of the external auditor's work.
- Reviewing the financial statements and the external auditor's opinion on the statements.
- Considering external audit and inspection recommendations and ensuring these are fully responded to.
- Reviewing and monitoring treasury management arrangements.

4. Options considered and recommended proposal

4.1 The Prospectus and work plan for the Audit Committee are helpful guiding documents for the Committee itself and other stakeholders with an interest in the Committee's activities. The work plan for the coming year by date is presented to each committee meeting for review and amendment.

5. Consultation

5.1 Relevant officers were consulted in producing the Prospectus.

6. Timetable and Accountability for Implementing this Decision

6.1 The Forward Plan comprises a schedule of reports to be presented to the Audit Committee at each of its meetings during the year. Various reports have to be presented at specified meetings in order to comply with statutory requirements (for example relating to the statement of accounts and annual governance statement).

7. Financial and Procurement Implications

7.1 There are no financial or procurement issues arising from this report.

8. Legal Implications

8.1 There are no direct legal implications associated with this report.

9. Human Resources Implications

9.1 There are no Human Resources implications arising from the report.

10. Implications for Children and Young People and Vulnerable Adults

10.1 The Audit Committee reviews the management of risks across the Council including those relating to Children's and Adult Services. Review of the management of risks helps to ensure the risks are mitigated.

11. Equalities and Human Rights Implications

11.1 There are no direct Equalities or Human Rights implications arising from this report.

12. Implications for Partners and Other Directorates

12.1 Partners will be able to take assurance on the Control's application of governance controls and management of risks from the work of the Audit Committee.

13. Risks and Mitigation

13.1 The Audit Committee aims to comply with standards established by the Chartered Institute of Public Finance and Accountancy (CIPFA). The maintenance of a work plan is consistent with the CIPFA standards. The production of a work plan also helps the Audit Committee to ensure it achieves its terms of reference.

14. Accountable Officer:

David Webster (Head of Internal Audit).

Audit Committee Forward Work Plan

Meeting Date	Objective	Agenda Item	Author
2 nd October 2018	Effectiveness of Internal Audit	Training – Risk Management	
		IA Charter review and update	David Webster
	Effectiveness of Internal Audit and internal control environment	IA Progress Report	David Webster
	Effectiveness of Risk Management	Risk Management Policy and Strategy	Simon Dennis
	Effectiveness of Risk Management	Risk Management Directorate Presentation – Assistant Chief Executive	Shokat Lal
	Managing the risk of fraud	Anti-Fraud and Corruption Policy and strategy review and update	David Webster
		Audit Committee Forward Work Plan	David Webster

Meeting Date	Objective	Agenda Item	Author
27 th November 2018	Review External Audit findings	Training – Code of Corporate Governance External Audit Annual Letter	External Audit / Graham Saxton
	Consider Audit and Inspection Recommendations	External Audit and Inspection recommendations	Sue Wilson
	Monitor Treasury Management	Mid-Year Report on Treasury Management	Graham Saxton
	Regulation of Investigatory Powers	Review of Surveillance	Neil Concannon
	Review Annual Governance Statement	Code of Corporate Governance	Simon Dennis
	Effectiveness of Risk Management	Risk Management Directorate Presentation – Regeneration and Environment	Damien Wilson
	Effectiveness of Internal Audit and internal control environment	IA Progress Report Audit Committee Forward Work Plan	David Webster David Webster

Meeting Date	Objective	Agenda Item	Author
29 th January 2019	Review financial statements	Training	Graham Saxton
	Review External Audit findings	Final Accounts closedown and accounting policies	External Audit / Graham Saxton
	Review External Audit Annual Plan	External Audit Grants Report	Grant Thornton / Graham Saxton
	Effectiveness of Risk Management	External Audit Plan	Simon Dennis
	Effectiveness of Risk Management	Strategic Risk Register	Judith Badger
	Effectiveness of internal control environment	Risk Management Directorate Presentation – Finance and Customer Services	Head of Information Governance
	Effectiveness of Internal Audit and internal control environment	Information Governance	David Webster
		IA Progress Report	David Webster
		Audit Committee Forward Work Plan	

Meeting Date	Objective	Agenda Item	Author
26 th March 2019	Effectiveness of Internal Audit and internal control environment	Training	
		IA Strategy and Plan	David Webster
	Effectiveness of Internal Audit and internal control environment	IA Progress Report	David Webster
	Effectiveness of Internal Audit and internal control environment	Risk Management Directorate Presentation – CYPS	Jon Stonehouse
	Effectiveness of Internal Audit	PSIAS Internal Assessment / QAIP	David Webster
		Audit Committee Self Assessment and Annual Report	David Webster
		Audit Committee Prospectus and Forward Work plan	David Webster
		Private Meeting	

June 2019		Training – Statement of Accounts	
	Review Financial Statements	Draft Statement of Accounts	Graham Saxton
	Review Governance Statement	Draft AGS	Judith Badger
	Regulation of Investigatory Powers	Review of Surveillance and Policy	Neil Concannon
	Consider Audit and Investigation recommendations	External Audit Recommendations	Sue Wilson
	Effective of internal control environment	Information Governance	Head of Information Governance
	Effectiveness of Internal Audit and internal control environment	IA Progress Report	David Webster
	Effectiveness of Internal Audit and internal control environment	IA Annual Report	David Webster
	Effectiveness of Risk Management	Risk Management Directorate Presentation – Adult Care and Housing	Anne Marie Lubanski
		Audit Committee Forward Plan	David Webster

Summary Sheet

Council Report

Audit Committee

Title

External Audit ISA 260 Report

Is this a Key Decision and has it been included on the Forward Plan?

No.

Strategic Director Approving Submission of the Report

Judith Badger – Strategic Director of Finance & Customer Services

Report Author(s)

Rob Mahon – Finance Manager Financial Accounting
Finance & Customer Services Directorate
01709 254518 rob.mahon@rotherham.gov.uk

Ward(s) Affected

All

Executive Summary

The ISA 260 report sets out KPMG's overall conclusions from their 2017/18 audit in relation to their two statutory objectives:

- To give an opinion on the Council's financial statements, and
- To conclude on whether the Council has arrangements in place to secure value for money in the use of its resources.

This represents the final stage of the audit process in which Members are asked to consider KPMG's findings before formally approving the 2017/18 Statement of Accounts and the 2017/18 Narrative Report for publication as final and to issue KPMG with the Letter of Management Representations which KPMG require to complete their audit.

Members will be aware of the shortened timescale introduced for 2017/18 audits onwards which requires the production and audit of the financial statements to be concluded by 31st July rather than the previous statutory date of 30th September.

At the time of writing this report, the Draft ISA 260 report for 2017/18 is not available to include on the agenda by the agenda publication deadline of 20th July, but will be provided to Audit Committee members as soon as it becomes available.

Recommendations

The Audit Committee is asked to:

- i. Consider KPMG's overall audit findings from their 2017/18 audit as set out in the ISA 260 report ;**
- ii. Having taken due regard of these findings, formally approve the 2017/18 Statement of Accounts for publication as final and the 2017/18 Narrative Report for publication as final; and**
- iii. Approve that KPMG be issued with the Letter of Management Representation**

List of Appendices Included

Appendix 1 - KPMG ISA 260 report (when available)

Appendix 2 - 2017/18 Statement of Accounts to be published as final (when available)

Appendix 3 – 2017/18 Narrative Report to be published as final

Appendix 4 – Letter of Management Representation

Background Papers

Accounts and Audit Regulations 2015

CIPFA Code of Practice on Local Authority Accounting 2017/18

Interim Audit Letter 2017/18

Consideration by any other Council Committee, Scrutiny or Advisory Panel

No

Council Approval Required

No

Exempt from the Press and Public

No

External Audit ISA 260 report

1. Recommendations

The Audit Committee is asked to:

- i. Consider KPMG's overall audit findings from their 2017/18 audit as set out in the ISA 260 report ;**
- ii. Having taken due regard of these findings, formally approve the 2017/18 Statement of Accounts for publication as final and the 2017/18 Narrative Report for publication as final; and**
- iii. Approve that KPMG be issued with the Letter of Management Representation**

2. Background

- 2.1 At the Audit Committee meeting on 8 February 2018 members received KPMG's Audit Plan for 2017/18 which set out the audit approach KPMG planned to take to discharge their audit objectives and the risks they had identified in relation thereto, and, then at the Audit Committee meeting on 19 June 2018 members were presented with an interim Audit report from KPMG on the interim position setting out progress following the planning and controls evaluation stages of their audit.
- 2.2 The ISA 260 report, summarises KPMG's overall conclusions from their 2017/18 audit in relation to their two statutory objectives:
 - To give an opinion on the Council's financial statements, and
 - To conclude on whether the Council has arrangements in place to secure value for money in the use of its resources (Value for Money Conclusion)
- 2.3 In order to complete the audit process in compliance with the Accounts and Audit Regulations 2015, the Audit Committee, as the body charged with governance within the Council, is required to formally resolve that the Statement of Accounts and Narrative Report be approved for publication. Approval can now take place, as the period for local electors to exercise their rights to ask questions of the auditor or to raise a formal objection that an item of account is unlawful has expired.
- 2.4 KPMG also requires as part of their audit completion processes, that they are provided with a Letter of Management Representations providing additional assurance on certain matters. The Letter of Management Representations has been signed by the Strategic Director of Finance and Customer Services: It now also needs to be agreed and signed on behalf of Audit Committee.

3. Key Issues

3.1 Statement of Accounts

- 3.1.1 The unaudited 2017/18 Statement of Accounts was published on the Council's website on 31 May 2018 alongside the draft Annual Governance Statement and draft Narrative Report.
- 3.1.2 A report was brought before this Committee on 19 June 2018 to highlight key aspects of the 2017/18 Statement of Accounts and changes to local authority financial reporting.
- 3.1.3 The ISA 260 report will provide KPMG's opinion on the financial statements for 2017/18 and will outline any issues that KPMG have found with regards to areas of significant audit risk, their opinion as to whether reasonable professional judgement has been exercised, and provide any recommendations for further improvements in the production of the accounts.

3.2 Value for Money (VFM) Conclusion

- 3.2.1 Section 2 of the ISA 260 report sets out the approach, risks, work and conclusion reached by KPMG on whether the Council has satisfactory arrangements in place to secure the economy, efficiency and effectiveness in the use of its resources.

4. Options considered and recommended proposal

- 4.1 There is no discretion on whether to comply with the Code or the Accounts and Audit Regulations. The purpose of the recommendations is for Audit Committee to meet its responsibilities in relation to the closure of the accounts.

5. Consultation

- 5.1 Close liaison continues to be maintained with the Council's External Auditors to ensure that complex accounting issues and action taken in response to changes to the local authority accounting framework are agreed in advance of the financial statements being prepared.

6. Timetable and Accountability for Implementing this Decision

- 6.1 The statutory deadline for publishing the audited financial statements is 31st July. .

7. Financial and Procurement Implications

- 7.1 There are no financial or procurement implications directly associated with this report, other than continuing to produce good quality financial statements

and supporting working papers which meet KPMG's expectations and will help to minimise the audit fee.

8. Legal Implications

- 8.1 None, other than ensuring compliance with the requirements of the Accounts and Audit Regulations 2015.

9. Human Resources Implications

- 9.1 There are no Human Resource implications arising from the report.

10. Implications for Children and Young People and Vulnerable Adults

- 10.1 There are no implications arising from the proposals to Children and Young People and Vulnerable Adults.

11. Equalities and Human Rights Implications

- 11.1 There are no implications arising from this report to Equalities and Human Rights.

12. Implications for Partners and Other Directorates

- 12.1 There are no other implications arising from this report to Partners or other directorates.

13. Risks and Mitigation

- 13.1 Robust project management arrangements have been put in place to ensure that the financial reporting timetable is adhered to and quality standards met.

14. Accountable Officer(s)

Judith Badger – Strategic Director of Finance & Customer Services

Appendix 1 - KPMG ISA 260 report (when available)

Appendix 2 - 2017/18 Statement of Accounts to be published as final (when available)



External Audit ISA260 Report 2017/18 DRAFT

**Rotherham
Metropolitan Borough
Council**

—

27 July 2018



Summary for Audit Committee

This document summarises the key findings in relation to our 2017-18 external audit at Rotherham Metropolitan Borough Council ('the Authority').

This report covers both our on-site work which was completed in June and July 2018 on the Authority's significant risk areas, as well as other areas of your financial statements, and the control environment in place to support the production of timely and accurate financial statements.

Organisational and IT control environment	<p>Overall the organisational and IT control environment is good.</p> <p>We identified a small number of IT control weaknesses in relation to the housing benefit system. (Appendix 1)</p>
Controls over key financial systems	<p>Controls over key financial systems are generally good, however we have noted a number of control improvements in relation to PPE (Appendix 1).</p>
Accounts production	<p>We received the draft accounts on 31 May 2018, which is the statutory deadline for draft account production.</p> <p>Working papers were provided in a timely manner and were of good quality.</p>
Financial statements	<p>Subject to all outstanding queries being resolved to our satisfaction we anticipate issuing an unqualified audit opinion on the Authority's financial statements before the deadline of 31 July 2018.</p> <p>Based upon our initial assessment of risks to the financial statements (as reporting to you in our <i>External Audit Plan 2017/18</i> and updated during our audit) we identified the following significant risks (excluding those mandated by International Standards on Auditing – see Page 11):</p> <ul style="list-style-type: none"> — Valuation of PPE – Whilst the Authority operates a cyclical revaluation approach, the Code requires that all land and buildings be held at fair value. We considered the way in which the Authority ensures that assets not subject to in-year revaluation are overall not materially misstated. As part of our work we identified a number of audit adjustments. These are unadjusted audit differences and are detailed in Appendix 3. — Pensions Assets & Liabilities – The valuation of the Authority's pension liabilities and assets, as calculated by the Actuary, is dependent upon both the accuracy and completeness of the data provided and the assumptions adopted. We have reviewed the processes in place to ensure accuracy of data provided to the Actuary and considered the assumptions used in determining the valuation. We identified one unadjusted audit difference in relation to valuation of pension assets (appendix 3). No other issues were identified as a result of our work; and — Faster Close – The timetable for the production of the financial statements has been significantly advanced with draft accounts having to be prepared by 31 May (2017: 30 June) and the final accounts signed by 31 July (2017: 30 September). We worked with the Authority in advance of our audit to understand the steps being taken to meet these deadlines and the impact on our work. We noted that more errors around PPE were identified during our work, which is in part due to faster close as the finance team had less time to discuss things with the valuers. <p>We have identified four audit adjustments, none of which affected the prime financial statements. See Appendix 3 for details. We also identified eight unadjusted audit differences (Appendix 3).</p> <p>Based on our work, we have raised eight recommendations. Details of our recommendations can be found in Appendix 1.</p>

Summary for Audit Committee (cont.)

Financial Statements (cont.)

As at the date of drafting this report, we still have the following procedures to complete:

- Evidence from fixed asset valuer on assumptions used;
- Final review of pension assumptions used by the actuary;
- Completion of WGA work; and
- Updating our work in response to a small number of outstanding queries.

We are now in the completion stage of the audit. We anticipate issuing our audit opinion by 31 July 2018. We will issue our completion certificate in advance of the WGA deadline of 31 August 2018.

Value for money arrangements

We have completed our risk-based work to consider whether, in all significant respects, the Authority has proper arrangements to ensure it has taken properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We therefore anticipate issuing an unqualified value for money opinion

We set out our assessment of those areas requiring additional risk based work in our *External Audit Plan 2017/18* and have updated this assessment during our interim visit. As a result of this we have identified the following significant VFM audit risks:

- **Financial Sustainability** – As a result of reductions in central government funding, and other pressures, the Authority is having to make additional savings beyond those from prior years. We have considered the way in which the Authority identifies, approves, and monitors both savings plans and how budgets are monitored throughout the year. We did not identify any issues as a result of our work.
- **Delivery of Children's Services Improvement Plan** – In 2017/18 the Authority has continued to work towards delivering the improvement plan set up in order to allow the full return of powers from the Commissioners. We considered progress against this plan, and found that the improvement plan has been fully implemented, and the Authority continues to work hard ensuring it delivers a high quality children's service and respond to any regulator comments.

See further details on page 20.

Exercising of audit powers

We have a duty to consider whether to issue a report in the public interest about something we believe the Authority should consider, or if the public should know about.

We have not identified any matters that would require us to issue a public interest report.

In addition, we have not had to exercise any other audit powers under the Local Audit & Accountability Act 2014.

Acknowledgements

We would like to take this opportunity to thank Officers and Members for their continuing help

Section one

Control Environment



Organisational and IT control environment

We have identified no significant issues with the Authority's organisational and IT control environment and consider that the overall arrangements that have been put in place are reasonable. Despite this, we have noted a number of areas for further improvement in relation to the Northgate system which covers council tax, NNDR and housing benefits. These are detailed within our key findings below.

Work completed

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would have implications for our audit. We obtain an understanding of the Authority's overall control environment and determine if appropriate controls have been implemented. We do not complete detailed testing of these controls.

The Authority relies on information technology ("IT") to support both financial reporting and internal control processes. In order to satisfy ourselves that we can rely on the use of IT, we test controls over access to systems and data and system changes.

Key findings

We consider that your organisational and IT controls are effective overall, but noted a number of areas for further improvement:

- Northgate User Review** - The review of users of the Northgate (housing benefit) system is currently undertaken on an 8 month rolling cycle. However, this should be increased to at least a quarterly control to ensure that all leavers are identified and their access disabled in a timely manner.
- Northgate Administrator Access** - There is a generic user account for the Northgate system called 'RBUSER' which can be accessed by anyone with the password. There is an action log that records all activities performed by this user. However, this is not reviewed on a periodic basis. We recommend reviewing this action log monthly as a detective control to identify any issues.
- Northgate Privileged Access Authorisation** - We have determined that there are no formalised procedures specific to Northgate for establishing a new privileged access user. We recommend that all new privileged access users are appropriately authorised as necessary, including the level of privileges.

As there were mitigating manual controls in place, such as the monthly reconciliation of the Northgate system to the General Ledger, the above issues did not impact our audit approach, but represent weaknesses in controls which should be addressed.

Recommendations are included in Appendix 1.

Aspect of controls	Assessment	Key
Organisational controls:		
Management's philosophy and operating style	3	1 Significant gaps in the control environment.
Culture of honesty and ethical behaviour	3	2 Deficiencies in respect of individual controls
Oversight by those charged with governance	3	3 Generally sound control environment.
Risk assessment process	3	
Communications	3	
Monitoring of controls	3	
IT controls:		
Access to systems and data	2	
System changes and maintenance	3	

Controls over key financial systems

The controls over the majority of the key financial systems are sound.

However, there are some weaknesses in respect of valuation of PPE which could be improved.

Work completed

We review the outcome of internal audit's work on the financial systems to influence our assessment of the overall control environment, which is a key factor when determining the external audit strategy.

Where we have determined that this is the most efficient audit approach to take, we evaluate the design and implementation of the control and then test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Our assessment of a system will not always be in line with your internal auditors' opinion on that system. This is because we are solely interested in whether our audit risks are mitigated through effective controls, i.e. whether the system is likely to produce materially reliable figures for inclusion in the financial statements.

Key findings

Based on our work we have determined that the controls over the majority of the key financial systems are sound. However, we noted the following areas for improvement:

- As part of our substantive work on valuation of PPE, we noted that, although land and buildings are valued on a five year rolling basis, there is insufficient consideration of the impact that any changes in valuations may have on those assets not revalued in year (recommendation one).
- We noted two instances where a change in how a valuation was undertaken compared to previous years had led to a change in value of assets which should have been applied to all assets in that particular class (recommendation two)
- Asset valuations are currently taken as at 1 April, rather than as at the balance sheet date of 31 March. This could lead to material misstatements in the accounts if there are large movements in build costs or the values of properties in year (recommendation three)
- There were two errors identified in the PPE figures - a school being disposed of in the wrong period, and incorrect figures being provided by the valuer. Although these are mainly due to human error, the faster close process left less time for the detailed quality checks that have previously occurred. (recommendation seven).
- When schools convert to academies, although the actual building is taken out of the asset register, the fixtures and fittings are still left in there at nil net book value. This overstates the gross book value and accumulated depreciation within the fixed asset note (recommendation eight)

Recommendations are included in Appendix 1.

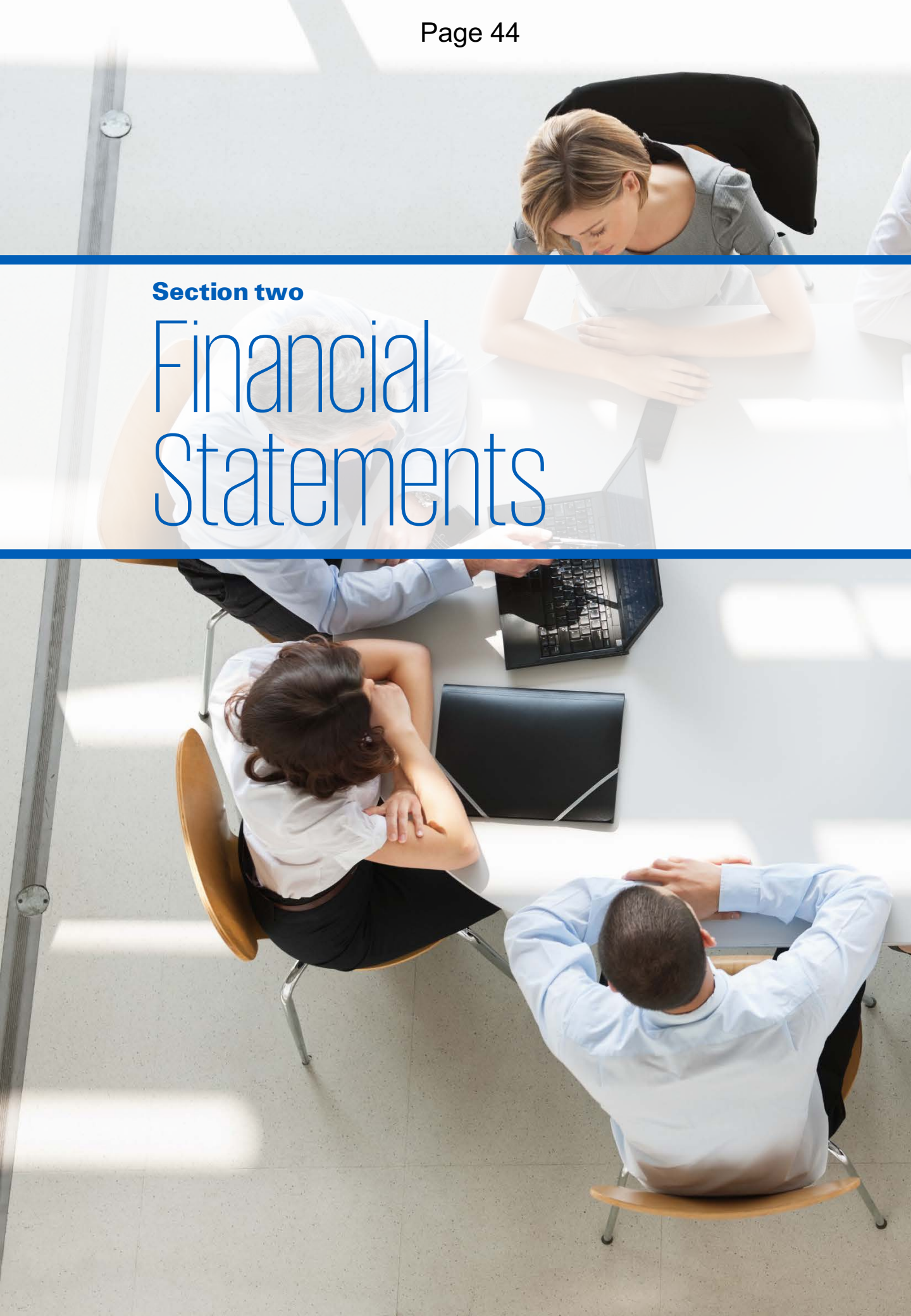
Controls over key financial systems (cont.)

Aspect of controls	Assessment	Key	
Property, Plant and Equipment	2	1	Significant gaps in the control environment
Cash and Cash Equivalents	3	2	Deficiencies in respect of individual controls
Pension Assets and Liabilities	3	3	Generally sound control environment
Non pay expenditure	3		
Payroll	3		
Housing benefits expenditure	3		
Business rates income	3		
Council tax income	3		
HRA rental income	3		
HRA repairs and maintenance expenditure	3		



Section two

Financial Statements



Accounts production and audit process

Audit standards (ISA 260) require us to communicate our views on the significant qualitative aspects of the Authority's accounting practices and financial reporting.

We also assessed the Authority's process for preparing the accounts and its support for an efficient audit. The efficient production of the financial statements and good-quality working papers are critical to meeting the tighter deadlines.

The Authority's overall process for the preparation of the financial statements is adequate.

The Authority has implemented all of the recommendations in our *ISA 260 Report 2016/17*.

Accounts practices and production process

The Authority incorporated a number of measures into its closedown plan to improve the project management of this complex process. Specifically, the Authority recognised the additional pressures which the earlier closedown brought and we engaged with Officers in the period leading up to the year end in order to proactively address issues as they emerge.

We consider that the overall process for the preparation of your financial statements is good.

We also consider the Authority's accounting practices appropriate.

Going concern

The financial statements of the Authority have been prepared on a going concern basis. We confirm that we have identified no significant matters which would, in our view, affect the ability of the Authority to continue as a going concern.

Implementation of recommendations

We raised a total of 5 recommendations in our ISA 260 Report 2016/17. The Authority has implemented all of the recommendations relating to the financial statements in line with the timescales of the action plan. Further details are included in Appendix 2.

Completeness of draft accounts

We received a complete set of draft accounts on 31 May 2018, thereby meeting the statutory deadline.

Quality of supporting working papers

We issued our Accounts Audit Protocol to the finance team on 27 March 2018. This important document sets out our audit approach and timetable. It also summarises the working papers and other evidence we require the Authority to provide to support our audit work. This helps the Authority to provide audit evidence in line with our expectations. We worked with management to ensure that working paper requirements are understood and aligned to our expectations. We are pleased to report that this has resulted in good-quality working papers with clear audit trails.

Response to audit queries

We are pleased to report that our agreed turnaround time for dealing with audit queries was achieved by Officers, including those who are not part of the finance team. As a result of this, all of our audit work were completed within the timescales expected with no outstanding queries.

Specific audit areas

We anticipate issuing an unqualified audit opinion on the Authority's 2017-18 financial statements by 31 July 2018.

For the year ending 31 March 2018, the Authority has reported a deficit on provision of services of £75.3m. The impact on the General Fund has been a decrease of £14.3m.

Auditing standards require us to consider two standard risks for all organisations. We consider these as a matter of course in our audit and will have set out the findings arising from our work in our ISA 260 Report below.

01

Management override of controls

Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to this audit.

In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.

There are no matters arising from this work that we need to bring to your attention.

02

Fraudulent revenue recognition

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.

In our *External Audit Plan 2017-18* we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue.

This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.

Over the following pages we have set out our assessment of the specific significant risks and areas of audit focus we identified in relation to the audit of the Authority's financial statements.

Specific audit areas

Significant Audit Risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error in relation to the Authority.

Risk:	Valuation of PPE <p>The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Authority has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle. As a result of this, however, individual assets may not be revalued for four years.</p> <p>Given the number of assumptions that go into the valuation process and the values involved, relatively small changes in an assumption could have a material impact on the financial statements. There is also a risk that the carrying value of those assets not revalued in year differs materially from the year end fair value. In addition, as the valuation is undertaken as at 1 April, there is a risk that the fair value is different at the year end.</p>
Our assessment and work undertaken:	<p>We reviewed the approach that the Authority adopted to assess the risk that assets not subject to valuation were materially misstated and considered the robustness of that approach.</p> <p>In addition, we considered the impact of changes in the value of revalued assets on assets that had not been revalued in year to determine whether the fair values had moved materially since their last revaluation.</p> <p>In relation to those assets which have been revalued during the year we reviewed the accounting entries made to record the results of the revaluation in order to ensure that they were appropriate.</p> <p>We also assessed the valuer’s qualifications, objectivity and independence to carry out such valuations and reviewed the methodology used (including testing the underlying data and assumptions).</p> <p>As a result of this work we identified a number of errors in the values listed in the financial statements (See Appendix 3). As these are cumulatively below our materiality threshold they are unadjusted audit differences, and will be put through the 2018/19 accounts. The main reasons for the differences are as follows:</p> <ul style="list-style-type: none">- Asset valuations are undertaken as at 1 April, but the balance sheet date is 31 March. The valuations in the accounts did not take into account any potential in-year movement of build costs or property valuations;- The Authority values their land and building and council dwellings on a five-year rolling basis. This means each year, only 20% of their asset base has its value checked, and the impact on the other 80% not considered. Also, where an asset had been revalued and the change in value should have affected the whole asset class, this impact had not been considered;- We identified one instance where the valuer had provided the wrong figure to the finance team; and- We identified one instance where a school had incorrectly been recorded as having been converted to an academy at year end, when it didn’t convert until 1 April 2018. <p>We also identified a number of control weaknesses around considering the fair value of all land and buildings (Appendix 1). These included:</p> <ul style="list-style-type: none">- Improving communications between the finance team and the valuer;- Considering whether whole asset classes should be revalued if an in-year valuation indicates a change in value caused by changing assumptions or previous errors; and- Updating the value of assets up to the balance sheet date. <p>We have set out our view of the assumptions used in relation to accounting for Property, Plant & Equipment at page 13.</p>

Specific audit areas (cont.)

Significant Audit Risks – Authority (cont.)

Risk:	<p>Pension Liabilities</p> <p>The net pension liability represents a material element of the Authority’s balance sheet. The Authority is an admitted body of South Yorkshire Pension Fund, which had its last triennial valuation completed as at 31 March 2016. This forms an integral basis of the valuation as at 31 March 2018.</p> <p>The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions and methodology which results in the Authority’s overall valuation.</p> <p>There are financial assumptions and demographic assumptions used in the calculation of the Authority’s valuation, such as the discount rate, inflation rates, mortality rates etc. The assumptions should also reflect the profile of the Authority’s employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes.</p> <p>There is a risk that the assumptions and methodology used in the valuation of the Authority’s pension obligation are not reasonable. This could have a material impact to the net pension liability accounted for in the financial statements.</p>
Our assessment and work undertaken:	<p>As part of our work we reviewed the controls that the Authority has in place over the information sent directly to the Scheme Actuary. We also liaised with the auditors of the Pension Fund in order to gain an understanding of the effectiveness of those controls operated by the Pension Fund. This included consideration of the process and controls with respect to the assumptions used in the valuation. We also evaluated the competency, objectivity and independence of Mercer.</p> <p>We reviewed the appropriateness of the key assumptions included within the valuation, compared them to expected ranges and involved a KPMG Actuary to provide a specialist assessment of those assumptions. We also reviewed the methodology applied in the valuation by Mercer.</p> <p>In order to determine whether the net pension liability has been appropriately accounted for we also considered the valuation of pension assets. We obtained assurance from the Pension Fund auditors (KPMG) over the overall value of fund assets.</p> <p>Our work has also considered the roll forward of the assets undertaken by the actuaries and the allocation of those assets to the Authority. We noted that, consistent with many pension funds given the faster close process of Local Government accounts, the actuaries have used estimated investment rates of returns for the end of 2017/18, which our work has considered. The difference in actual and estimated investment rates of return is a £5.7m increase in the pension asset. This is recorded as an unadjusted audit difference (Appendix 3).</p> <p>As a result of this work we determined that there are no material errors in relation to the pension asset and liabilities figures shown within the financial statements.</p> <p>We have set out our view of the assumptions used in valuing pension assets and liabilities at page 13.</p>

Specific audit areas (cont.)

Significant Audit Risks (cont.)

Risk:	<p>Faster Close</p> <p>In prior years, the Authority has been required to prepare draft financial statements by 30 June and then final signed accounts by 30 September. For years ending on and after 31 March 2018 however, revised deadlines apply which require draft accounts by 31 May and final signed accounts by 31 July.</p> <p>These changes represent a significant change to the timetable that the Authority has previously worked to. The time available to produce draft accounts has been reduced by one month and the overall time available for completion of both accounts production and audit is two months shorter than in prior years.</p> <p>In order to meet the revised deadlines, the Authority may need to make greater use of accounting estimates. In doing so, consideration will need to be given to ensuring that these estimates remain valid at the point of finalising the financial statements. In addition, there are a number of logistical challenges that will need to be managed. These include:</p> <ul style="list-style-type: none">— Ensuring that any third parties involved in the production of the accounts (including valuers, actuaries, subsidiaries and subsidiary auditors) are aware of the revised deadlines and have made arrangements to provide the output of their work in accordance with this;— Revising the closedown and accounts production timetable in order to ensure that all working papers and other supporting documentation are available at the start of the audit process;— Ensuring that the Audit Committee meeting schedules have been updated to permit signing in July; and— Applying a shorter paper deadline to the July meeting of the Audit Committee meeting in order to accommodate the production of the final version of the accounts and our ISA 260 report. <p>In the event that the above areas are not effectively managed there is a significant risk that the audit will not be completed by the 31 July deadline.</p> <p>There is also an increased likelihood that the Audit Certificate (which confirms that all audit work for the year has been completed) may be issued separately at a later date if work is still ongoing in relation to the Authority’s Whole of Government Accounts return. This is not a matter of concern and is not seen as a breach of deadlines.</p>
Our assessment and work undertaken:	<p>We liaised with Officers in preparation for our audit in order to understand the steps that the Authority was taking in order to ensure it met the revised deadlines. We also advanced audit work into the interim visit in order to streamline the year end audit work.</p> <p>We received draft financial statements on the statutory deadline of 31 May 2018. We have noted more audit and presentational adjustments than we have in previous years.</p> <p>As a result of this work we determined that work with the valuers needs to be undertaken earlier in the year, so any issues that arise can be dealt with prior to the draft accounts being produced. We also recommend ensuring adequate time for quality checks is built into the accounts closedown process (See Appendix 1 for recommendations).</p>

Judgements

We have considered the level of prudence within key judgements in your 2017-18 financial statements and accounting estimates. We have set out our view below across the following range of judgements.

Level of prudence

0	1	2	3	4	5	6
Audit Difference	Cautious		Balanced		Optimistic	Audit Difference
	Acceptable Range					

Subjective area	2017-18	2016-17	Commentary
Provisions (excluding Business Rates)	3	3	The total value of provisions (excluding Business rate appeals) is (£6m). The majority of the provisions relate to the estimated value of outstanding insurance claims (£5m). We have agreed this figure to workings and supporting evidence provided by the Council and have concluded that this is a balanced judgement.
Business Rates provision	3	3	Since 2013/14 the Authority has been responsible for a proportion of successful rateable value appeals. The Business rate appeals provisions held at year end is (£4.3m). We have reviewed the workings for the provisions and note that these have increased from the prior period based upon more evidence of appeals. The methodology behind this calculation is considered balanced and based accordingly upon recent historical trends and knowledge of current cases.
Property Plant & Equipment: HRA Assets	1	3	The Authority continues its use of the beacon methodology in line with the DCLG's <i>Stock Valuation for Resource Accounting</i> published in November 2016. The Authority utilised its own internal valuer to provide valuation estimates. We have reviewed the assumptions around these estimates and highlighted a number of unadjusted audit differences and recommendations in relation to the valuation of HRA assets. These are detailed in Appendix 1 and Appendix 3.
Property Plant & Equipment: Non-HRA Assets	1	3	Our work around PPE did not identify any inappropriate asset lives being applied to PPE held. We are therefore satisfied that the asset lives being applied by the Council are reasonable and reflect as closely as possible the expected useful remaining life of assets. We reviewed the assumptions used by the valuer highlighted a number of unadjusted audit differences and recommendations in relation to the valuation of non-HRA assets. These are detailed in Appendix 1 and Appendix 3.
Valuation of Pension Assets and Liabilities	3	3	<p>The Authority continues to use Mercer to provide actuarial valuations in relation to the assets and liabilities recognised as a result of participation in the Local Government Pension Scheme. Due to the overall value of the pension assets and liabilities, small movements in the assumptions can have a significant impact on the overall valuation.</p> <p>The actual assumptions adopted by the actuary fell within our expected ranges as set out below:</p>

continues overleaf

Judgements (cont.)

Subjective area	2017-18	2016-17	Commentary			
Valuation of pension assets and liabilities (cont.)	3	3	Assumption	Actuary Value	KPMG Value	Assessment
			Discount rate	2.60%	2.50%	4
			Pension Increase Rate	2.20%	2.16%	3
			Salary Increases	1.25% until 31 March 2020, CPI plus 1.25% there after	CPI plus 0% to 2.0%	3
	2	n/a	Life expectancy			
			Males currently aged 45 / 65	25.2 / 23.0	23.5 / 22.1	2
			Females currently aged 45 / 65	28.1 / 25.8	25.4 / 23.9	
			We have assessed the level of actual lump sum and benefit payments made to retirees of the Council and their beneficiaries and transfers in/out of the Fund in the year ended 31 March 2018 when compared to equivalent figures provided by the Pension Fund audit team. We noted that there were some immaterial differences in these figures due to estimates being updated by the actuary during and following the pension fund audit process. We are satisfied that the estimates used to reach the figures disclosed in the Council's accounts remain materially correct and based upon reasonable assumptions and would have no impact on the reader's interpretation of the accounts			
			We also considered the accuracy of the estimated investment returns for the end of 2017/18 and identified an £5.7 million difference in the value of pension assets. This has no impact on the general fund or HRA.			



Proposed opinion and audit differences

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's 2017-18 financial statements following approval of the Statement of Accounts by the Audit Committee on 30 July 2018.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

The final materiality (see Appendix 4) for this year's audit was set at £11 million. Audit differences below £550k are not considered significant.

Our audit identified a total of four audit differences, which we set out in Appendix 3. It is our understanding that these will be adjusted in the final version of the financial statements. None had an impact on the prime statements of the accounts.

The following will be unadjusted audit differences:

- A school disposed of in the wrong period (would cause a £1.5m increase in general fund)
- An asset revalued at the wrong amount (£2.15m)
- Fixtures and fittings not disposed of when schools convert to academies (NBV £0)
- An increase in schools valuations due to improved valuation methodology (£4.9m)
- A net decrease in the value of fixed asset gross book value as at 31 March 2018 of £6.8m due to consideration of in year valuation changes
- Increase in pension fund asset valuation (£5.7m)

In addition, we identified a small number of presentational adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18 ('the Code'). We have set out details of significant presentational adjustments in Appendix 3. We understand that the Authority will be addressing these where significant.

Annual governance statement

We have reviewed the Authority's 2017-18 Annual Governance Statement and confirmed that it is not misleading and is consistent with other information we are aware of from our audit of the financial statements.

Narrative report

We have reviewed the Authority's 2017-18 narrative report and have confirmed that it is consistent with the financial statements and our understanding of the Authority.

Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's 2017/18 financial statements.

Before we can issue our opinion we require a signed management representation letter.

Once we have finalised our opinions and conclusions we will prepare our Annual Audit Letter and close our audit.

Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of Rotherham Metropolitan Borough Council for the year ending 31 March 2018, we confirm that there were no relationships between KPMG LLP and Rotherham Metropolitan Borough Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 5 in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Finance Team for presentation to the Audit Committee. We require a signed copy of your management representations before we issue our audit opinion.

Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- Significant difficulties encountered during the audit;
- Significant matters arising from the audit that were discussed, or subject to correspondence with management;
- Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc.).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2017-18 financial statements.

Section three

Value for Money Arrangements



Specific value for money risk areas

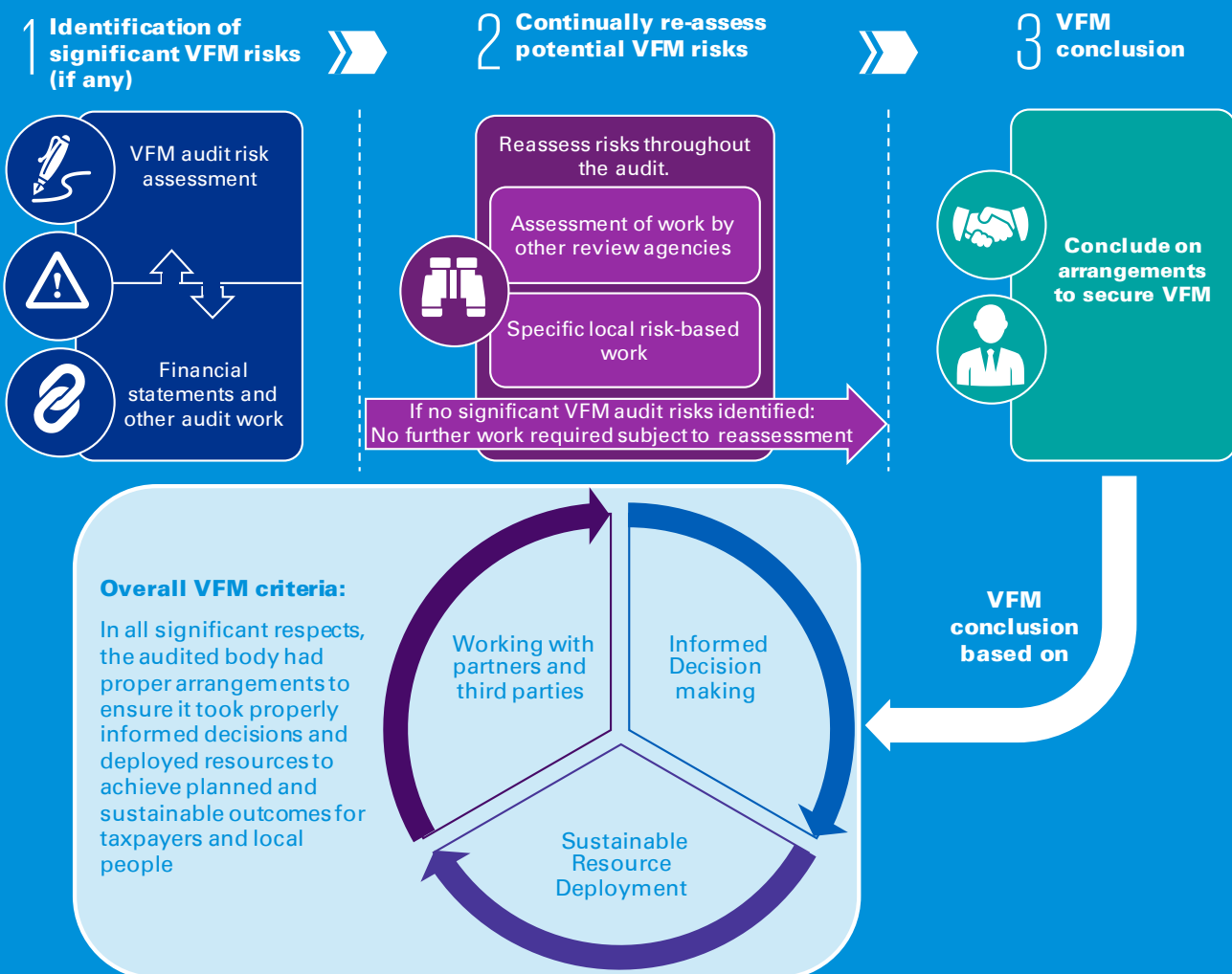
Our 2017-18 VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We have concluded that the Authority has made proper arrangements to ensure it took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

We follow a risk based approach to target audit effort on the areas of greatest audit risk.



Specific value for money risk areas (cont.)

The table below summarises our assessment of the individual VFM risks identified against the three sub-criteria. This directly feeds into the overall VFM criteria and our value for money opinion.

Applicability of VFM Risks to VFM sub-criteria				
VFM Risk	Informed decision making	Sustainable resource deployment	Working with partner and third parties	
Financial Sustainability	✓	✓	✓	
Delivery of Children's' Services Improvement Plan		✓		

In consideration of the above, we have concluded that in 2017-18, the Authority has made proper arrangements to ensure it took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Further details on the work done and our assessment are provided on the following pages.



Specific value for money risk areas (cont.)

As communicated to you in our *External Audit Plan 2017-18* we have identified two risks requiring specific audit attention and procedures to address the likelihood that proper arrangements are not in place to deliver value for money.

In all cases we are satisfied that external or internal scrutiny provides sufficient assurance that the Authority’s current arrangements in relation to these risk areas are adequate.

We have provided below a summary of the risk areas identified, our work undertaken and the conclusions reached.

Risk:	Financial Sustainability As documented in our audit plan: The Authority identified the need to make savings of £24 million in their 2017/18 budget. The current forecast shows that the Authority will deliver an overspend of approximately £4.5 million. This is predominantly due to pressures on Children’s Services (£3.987m forecast overspend) caused by increasing numbers of children in care, and Adult Care & Housing (£5.280m forecast overspend) due to a shortfall in delivering the proposed budget savings. The Authority’s budget for 2018/19 is in the process of being approved, but recognises a need for £31 million in savings over 2018/19 and 2019/20. The budget includes individual proposals to support the delivery of the overall savings requirement. It is recognised that further savings will be needed for future years due to reductions in local authority funding alongside service cost and demand pressures. As a result, the need for savings will continue to have a significant impact on the Authority’s financial resilience.
Our assessment and work undertaken:	 Like most of local government, the Authority faces a challenging future driven by funding reductions and an increase in demand for services, particularly around children’s services and adult social care. As part of our additional risk based work, we have reviewed the controls the Authority has in place to ensure financial resilience. Specifically that the Medium Term Financial Plan has duly taken into consideration factors such as funding reductions, salary and general inflation, demand pressures, restructuring costs and sensitivity analysis given the degree of variability in the above factors. We have specifically considered the arrangements in place around savings identified in relation to Adult and Children’s Services. The Authority’s MTFP details a balanced budget for 2018/19 including savings of £15.1 million in year, all of which have been identified. However, the MTFP details the increasingly difficult financial challenges faced each year, resulting in the need for ever rising savings which have yet to be identified, up to £30 million by 2020/21. We have reviewed the assumptions around the MTFP, along with considering some of the saving plans for reasonableness and comparing them to supporting information, and they appear reasonable, although the savings plans will be challenging.

Specific value for money risk areas (cont.)

Significant VFM Risks (cont.)

Risk:	<p>Delivery of Children’s Services Improvement Plan</p> <p>In 2016/17, the Council saw the return of all their statutory powers, apart from those relating to Children’s Services, following the commencement of implementing their improvement plan. During 2017/18, work is progressing to deliver this improvement plan, particularly in relation Children’s Services. Successful implementation of robust governance arrangements will help improve quality of service. Without this, there could be an increased risk of litigation, poor decision making, and future financial risk.</p>
Our assessment and work undertaken:	<p>We have spoken to key Officers, and reviewed the Council’s progress against their action plan. We have considered the results of external reviews, such as those undertaken by OFSTED, and assessed how the Improvement Plan has been considered in relation to financial sustainability and budget setting.</p> <p>The Improvement Plan produced in 2014/15 is now complete, and we are satisfied that actions in the plan have been appropriately completed. The Authority received a “good” rating in its latest OFSTED report, which supports the work the Council have done to improve the service. The next steps for the Authority are to ensure the service continues to be financially sustainable whilst maintaining the good level of service currently provided.</p>

Appendices



Key issues and recommendations

Our audit work on the Authority’s 2017-18 financial statements has identified a number of issues. We have listed these issues in this appendix together with our recommendations which we have agreed with Management. We have also included Management’s responses to these recommendations.

The Authority should closely monitor progress in addressing the risks, including the implementation of our recommendations.

We have given each recommendation a risk rating and agreed what action management will need to take.

Priority Rating for Recommendations

1	Priority One: Issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk. Recommendations Raised: 0	2	Priority Two: Issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system. Recommendations Raised: 6	3	Priority Three: Issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them. Recommendations Raised: 2
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No.	Risk	Issue & Recommendation	Management Response
1	2	<p>High level review of valuation of land & buildings</p> <p>Rotherham MBC currently revalue their assets on a rolling five year basis in line with the CIPFA code. Within the Guidance Document to the Code, it also states "revaluations must be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using current value at the end of the reporting period". Although there is no requirement to undertake revaluations on an annual basis for all assets, the Code is clear that a Local Authority must satisfy itself that the carrying value of an asset does not differ materially from its current value. From discussions with the internal valuers at Rotherham MBC, although they revalue all land and buildings on a five year rolling basis, they do not explicitly consider the impact of any changes in valuation on other assets in each particular asset subclass. This means that there is a risk that there could be material misstatements in the financial statements where assets have not been revalued for a number of years.</p> <p>Recommendation</p> <p>The Valuers report should contain clearer detail regarding their consideration of why other assets in a particular asset sub-class are unlikely to have changed in value, compared to audit materiality, when an asset that has been revalued has changed.</p>	<p>Agreed</p> <p>Responsible Officer</p> <p>Jonathan Marriott – Estates Team Manager</p> <p>Implementation Deadline</p> <p>31/03/2019</p>

Key issues and recommendations (cont.)

No.	Risk	Issue & Recommendation	Management Response
2	2	<p>Impact of valuations on whole asset classes</p> <p>As part of our work on the valuation of fixed assets, we noted that, where there had been changes in assumptions for assets valued in year, for example schools now having their boiler houses separately valued, or increased build costs associated with pavilions, the valuer had not considered the impact of this across the whole asset class.</p> <p>This could lead to an error in the accounts. We estimated the value of schools should increase by £4.9m if all school boilers were separately valued, and the value of pavilions should increase by £0.3m due to increased build costs.</p> <p>Recommendation</p> <p>Where valuations indicate a change that will affect the whole asset class, the valuer should revalue the whole asset class. All schools where boiler houses have not currently been separately revalued should be revalued in 2018/19. All pavilions that were not revalued in 2017/18 should be revalued in 2018/19.</p>	<p>Agreed</p> <p>Responsible Officer</p> <p>Jonathan Marriott – Estates Team Manager</p> <p>Implementation Deadline</p> <p>31/12/2018</p>
3	2	<p>Valuation of Fixed Assets to 31 March</p> <p>The valuer undertakes their valuations as at 1 April each year, but the balance sheet date is 31 March. Currently, no consideration is given to the movement in value of assets between these dates, particularly council dwellings and those valued under depreciated replacement cost methodology. Due to general fluctuations in house prices and regular increases in build costs, this could lead to a material difference between the valuation as at 1 April, and the value of assets at 31 March.</p> <p>Recommendation.</p> <p>There are a number of options of how the Council could address this. Potentially the simplest, and the one most commonly seen, is to value the assets as at 31 March, through a combination of in year revaluations and then applying indices between the actual date of valuation and year end.</p> <p>Alternatively, the valuers could continue to value as at 1 April, but then give more detailed consideration to the impact of changing build costs and housing sale prices in year.</p>	<p>Agreed</p> <p>Responsible Officer</p> <p>Jonathan Marriott – Estates Team Manager</p> <p>Implementation Deadline</p> <p>31/12/2018</p>
4	2	<p>Northgate User Review Frequency</p> <p>The review of users of the Northgate (housing benefit) system is currently undertaken on an 8 month rolling cycle. By not promptly reviewing user access rights, the Authority is at greater risk of malicious attack or fraud, especially if a leaver has a grievance with the Authority.</p> <p>Recommendation</p> <p>The review of user access to the Northgate system should be increased to at least a quarterly control to ensure that all leavers are identified and their access disabled in a timely manner.</p>	<p>Agreed</p> <p>Responsible Officer</p> <p>Paul Stone – Head of Corporate Finance</p> <p>Implementation Deadline</p> <p>31/12/2018</p>

Key issues and recommendations (cont.)

No.	Risk	Issue & Recommendation	Management Response
5	2	Northgate Generic Administrator Access There is a generic user account for the Northgate system called 'RBUSER' which can be accessed by anyone with the password. There is an action log that records all activities performed by this user. However, this is not reviewed on a periodic basis. There is a risk that staff may make changes to the system that they are not authorised to do. Users with administrator access have the ability to go in and make changes to IT systems without certain checks and authorisations being required that are in place for normal users. This increases the risk that changes could be made either accidentally or deliberately. Recommendation We recommend reviewing this action log monthly as a detective control to identify any issues.	Agreed Responsible Officer Paul Stone – Head of Corporate Finance Implementation Deadline 31/09/2018
		Northgate Privileged Access Authorisation We have determined that there are no formalised procedures specific to Northgate for establishing a new privileged access user. There is a risk that a user is granted inappropriate access to Northgate, which could lead to fraudulent or erroneous activity. When staff have unnecessary privileged access, there is a greater risk that unauthorised changes may be made to the system, either accidentally or deliberately. Staff should be reminded of the importance of appropriately authorising privileged access. Members of the IT team should only grant a user privileged access when there is an approved signatory authorising the access. Recommendation We recommend that all new privileged access users are appropriately authorised as necessary, including the level of privileges.	Agreed Responsible Officer Paul Stone – Head of Corporate Finance Implementation Deadline 31/09/2018
6	2		

Key issues and recommendations (cont.)

No.	Risk	Issue & Recommendation	Management Response
7	3	<p>Improvements to closedown process</p> <p>Following the implementation of the earlier closedown deadline this year, we noted more errors in the financial statements than we have done in recent years. A number of these relate to PPE, for example a school being disposed of in 2017/18 when it was actually disposed of on 1 April 2018. We also identified more presentational adjustments than we have done in previous years.</p>	<p>Agreed</p> <p>Responsible Officer</p> <p>Rob Mahon – Finance Manager – Financial Accounting</p> <p>Implementation Deadline</p> <p>31/09/2018</p>
		<p>Recommendation</p> <p>The closedown timetable for 2018/19 should allow more time for a thorough quality review of the accounts.</p> <p>The finance team should work closer with the valuer during the year to identify any PPE valuation issues early. They should also make use of the information on gov.uk which confirms exactly when schools were granted academy status, to confirm it matches with their previously notified dates.</p>	
8	3	<p>Review of fixed asset register for existence of assets</p> <p>Since schools started converting to academies, there has been a policy of keeping the fixtures and fittings in the council FAR, but fully depreciating the assets so they have nil net book value. This means that the gross book value is overstated by around £539k.</p>	<p>Agreed</p> <p>Responsible Officer</p> <p>Rob Mahon – Finance Manager – Financial Accounting</p> <p>Implementation Deadline</p> <p>31/12/2018</p>
		<p>Recommendation</p> <p>Although no audit adjustment has been put through the accounts this year, we recommend for 2018/19 an exercise is undertaken to understand which assets in plant, vehicles & equipment the Council still owns and which should be written out of the accounts.</p>	

Follow-up of prior year recommendations

The Authority has implemented the majority of the recommendations raised through our previous audit work.

This appendix summarises the progress made to implement the recommendations identified in our *Interim Audit Report 2016/17* and *ISA 260 Report 2016/17* and re-iterates any recommendations still outstanding.

Number of recommendations that were

Included in the original report	5
Implemented in year or superseded	5
Outstanding at the time of our interim audit	0

No.	Risk	Issue & Recommendation	Management Response	Status as at July 2018
1	2	<p>Preparation for early close</p> <p>The Authority will need to consider how they meet the requirements of early close in 2017/18.</p> <p>There is a risk that the Council do not meet the required deadlines for the preparation and audit of the statement of accounts in 2017/18.</p> <p>Recommendation</p> <p>We will work with the Council throughout the year to plan the close down to support the Council in meeting the deadlines required.</p>	<p>Accepted</p> <p>Responsible Officer</p> <p>Graham Saxton</p> <p>Implementation Deadline</p> <p>31/12/17</p>	<p>Although we have raised a minor recommendation in relation to faster close in 2017/18, the finance team has worked hard to meet all statutory deadlines.</p>
2	2	<p>Appropriate IT authorisation for new starters</p> <p>We tested a sample of 25 staff to check that they had been appropriately authorised to access the general ledger. Of these, we identified one instance where there was no evidence of authorisation, and one instance where the person who had authorised the form was not on the authorisation list.</p> <p><i>Continued overleaf...</i></p>	<p>Accepted</p> <p>Responsible Officer</p> <p>Richard Douthwaite</p> <p>Implementation Deadline</p> <p>31/10/2017</p>	<p>We did not identify any issues as a result of our 2017/18 audit work.</p>

Follow-up of prior year recommendations (cont.)

No.	Risk	Issue & Recommendation	Management Response	Status as at July 2018
2	2	<p>Appropriate IT authorisation for new starters (cont.)</p> <p>Although we subsequently obtained evidence that both users were appropriate, this represents a control weakness in the process.</p> <p>There is a risk that a user is granted inappropriate access to the general ledger, which could lead to fraudulent or erroneous postings.</p> <p>Recommendation</p> <p>The authority should ensure that all users gain approval to access the ledger in line with Council procedures.. Members of the IT team should only grant a user access when there is an approved signatory authorising the access.</p>		
3	2	<p>Timely removal of leavers from IT systems</p> <p>We obtained a listing of all active users of the general ledger and compared this to a list of leavers per the HR system. We identified two instances where staff had left the organisation but still had access to the ledger at the date of our testing.</p> <p>By not promptly removing user access rights, the Authority is at risk of malicious attack or fraud, especially if a leaver has a grievance with the Authority.</p> <p>Recommendation</p> <p>We obtained a listing of all active users of the general ledger and compared this to a list of leavers per the HR system. We identified two instances where staff had left the organisation but still had access to the ledger at the date of our testing.</p> <p>By not promptly removing user access rights, the Authority is at risk of malicious attack or fraud, especially if a leaver has a grievance with the Authority.</p>	<p>Accepted</p> <p>Responsible Officer</p> <p>Richard Douthwaite</p> <p>Implementation Deadline</p> <p>31/10/2017</p>	<p>We did not identify any issues as a result of our 2017/18 audit work.</p>

Follow-up of prior year recommendations (cont.)

No.	Risk	Issue & Recommendation	Management Response	Status as at July 2018
4	3	<p>Segregation of duty in journals processing</p> <p>The authorisation of journals takes place outside of the general ledger (e5) through email approval by a relevant senior staff member. The preparation and posting of journals is performed by the same staff member within e5 with no automatic process for confirming the authorisation or ensuring appropriate segregation of duties is in place.</p> <p>There is a risk that the correct authorisation process is not followed and staff can post journals without them being authorised. It should however be noted that our testing did not identify any instances where this had occurred, hence the low priority recommendation</p> <p>Recommendation</p> <p>We recommend that the Authority looks into whether the general ledger could be updated to include an authorisation step for journals. We recognise this may have to wait until the next significant ledger upgrade, and as such, until this time, random spot checks should be undertaken by a senior member of the finance team to confirm the process is being appropriately followed. These checks should be recorded and available as audit evidence.</p>	<p>Accepted</p> <p>Responsible Officer</p> <p>Graham Saxton</p> <p>Implementation Deadline</p> <p>31/03/2018</p>	We did not identify any issues as a result of our testing.
5	2	<p>School Bank Account Reconciliations</p> <p>As part of our review of bank reconciliations, it was noted that schools produced reconciliations dated the 30th March rather than 31st March as we would expect.</p> <p>There is a risk that there may be reconciling items on the 31st that are not appropriately accounted for.</p> <p><i>Continued overleaf...</i></p>	<p>Accepted</p> <p>Responsible Officer</p> <p>Mick Wildman</p> <p>Implementation Deadline</p> <p>31/10/2017</p>	We did not identify any issues as a result of our 2017/18 testing.

Follow-up of prior year recommendations (cont.)

No.	Risk	Issue & Recommendation	Management Response	Status as at July 2018
5	2	School Bank Account Reconciliations (cont.) Recommendation The closedown timetable for 2017/18 should factor in this issue, and allow schools to run the balancing reports on 1st April to allow reconciliations dated the 31 March to be produced		

Audit differences

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Audit Committee).

We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

A number of minor amendments focused on presentational improvements have also been made to the 2017-18 draft financial statements. The Finance team is committed to continuous improvement in the quality of the financial statements submitted for audit in future years.

Adjusted audit differences

The following table sets out the significant audit differences identified by our audit of Rotherham Metropolitan Borough Council's financial statements for the year ended 31 March 2018. It is our understanding that these will be adjusted. However, we have not yet received a revised set of financial statements to confirm this.

We did not identify any adjusted audit differences which impact on the prime financial statements.

The following adjustments have been made which do not impact the prime financial statements:

- Note 14: Exit Packages – The number of other departures for non-schools was overstated by 2 staff members
- Note 14: Senior Officer Remuneration – The salary for the Head of Communication and Marketing was understated by £498.
- Note 15: Audit Fees – Non-audit work in relation to demand and service area consumption, with a value of £16,500 had been missed from the non-audit services line in the audit fee note.
- Note 49: Material Items of Income & Expenditure – the loss on disposal of non-current assets was incorrectly stated as £41.149m rather than £42.055m as per note 4

We also identified a small number of minor presentational errors, such as prior year balances not being updated in one note, and a number of typographical errors. These will all be amended in the final set of financial statements.

Audit differences

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Audit Committee).

We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

Unadjusted audit differences

The following table sets out the uncorrected audit differences identified by our audit of Rotherham Metropolitan Borough Council’s financial statements for the year ended 31 March 2018. These differences are individually below our materiality level of £11m. Cumulatively, the impact of these uncorrected audit differences is to increase the general fund by £1.5m. We have also considered the cumulative impact of these unadjusted audit differences on the Authority’s financial statements in forming our audit opinion.

Table 2: Unadjusted audit differences (£'000)

No.	Income and expenditure statement	Movement in reserves statement	Assets	Liabilities	Reserves	Basis of audit difference
1	CR Loss on Disposal (1,507)	DR General Fund 1,507	DR PPE 1,507		CR CAA (1,507)	A school was thought to have converted to an academy prior to year end so was disposed of in the accounts. When all academy conversions were reviewed, it converted at 1 April 2018, so should have been in the accounts at year end. No other academies had been accounted for incorrectly
2			DR PPE 2,157		CR reval reserve (2,157)	The valuer had provided the finance team with the wrong valuation for one asset.
3	DR Loss on Disposal 0		CR PPE 0			Fixtures and fittings not fully removed from asset register when a school converts to academy status (net impact is nil, but gross book value is £539k)
4			Dr PPE 4,905		CR reval reserve (4,905)	Schools revalued in year had increased in value due to more accurate measurement of land area and separately revaluing boiler houses as these have a higher build cost than general school buildings. To assess the impact of this across the whole of the schools asset base, an estimate of the likely increase in value has been calculated based on a number of broad assumptions, such as the expected % increase in valuation for each year the asset hasn't been revalued. The figure shown here is at the top end of likely difference
5			CR PPE (2,949)		DR reval reserve 2,949	Only 20% of council dwellings are revalued in year, with the 80% using previous valuations as their base. As such, the valuation of the 80% not revalued in year does not fully reflect the expected valuation based on the movement in the other 20%.
6			CR PPE (1,699)		DR reval reserve 1,699	School assets are revalued as at 1 April each year, and insufficient consideration had been given to the possible in year changes in value. Build costs have changed in year, which would impact the overall depreciated replacement costs of the assets.

Audit differences

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Audit Committee).

We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

Unadjusted audit differences (continued)

The following table sets out the uncorrected audit differences identified by our audit of Rotherham Metropolitan Borough Council’s financial statements for the year ended 31 March 2018. These differences are individually below our materiality level of £11m. Cumulatively, the impact of these uncorrected audit differences is to increase the general fund by £1.5m. We have also considered the cumulative impact of these unadjusted audit differences on the Authority’s financial statements in forming our audit opinion.

Table 2: Unadjusted audit differences (£'000)

No.	Income and expenditure statement	Movement in reserves statement	Assets	Liabilities	Reserves	Basis of audit difference
7			DR PPE 2,337		CR reval reserve (2,337)	Land and Buildings are revalued as at 1 April each year, and insufficient consideration had been given to the possible in year changes in value. Build costs have changed in year, which would impact the overall depreciated replacement costs of the assets.
8			DR PPE 2,301		CR Reval reserve (2,301)	Council Dwellings are revalued as at 1 April each year, and insufficient consideration had been given to the possible in year changes in value. Property prices have changed in year, which would impact the overall value of council properties held by the Authority.
	CR (1,507)	DR 1,507	DR 8,559		0	CR (8,559)
						Total impact of adjustments

NB. As a number of the above differences are subject to estimation uncertainty we have not required audit adjustments to be made, despite the total impact on fixed assets nearing our materiality level of £11m.

As well as the above unadjusted audit differences, we identified an unadjusted audit difference of £5.7m in relation to the pension assets. This variance is due to the actuary having to use estimates to provide their valuation in time for the draft accounts, but the actual figures being available by the time we complete our audit.

Materiality and reporting of audit differences

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

Material errors by value are those which are of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.

Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.

Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We used the same planning materiality reported in our *External Audit Plan 2017-18*, presented to you in February 2018.

Materiality for the Authority's accounts was set at £11 million which equates to around 1.6 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

ISA 450 requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, an individual difference is considered to be clearly trivial if it is less than £550k for the Authority.

Where management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

Required communications with the Audit Committee

We have provided below at-a-glance summary of the information we are required to report to you in writing by International Accounting Standards.

Required Communication	Commentary
Our draft management representation letter	We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 December 2018.
Adjusted audit differences	We have identified four adjusted audit differences. See Appendix 3 for details. These adjustments have no impact on the reported deficit on provision of services.
Unadjusted audit differences	The net impact of unadjusted audit differences on the deficit on provision of services would be an increase of £1.5m. In line with ISA 450 we request that you adjust for these items. However, they will have no effect on the opinion in the auditor's report, individually or in aggregate. See Appendix 3 for further details.
Related parties	There were no significant matters that arose during the audit in connection with the entity's related parties.
Other matters warranting attention by the Audit Committee	There were no matters to report arising from the audit that, in our professional judgment, are significant to the oversight of the financial reporting process.
Control deficiencies	We have set out our assessment of the Authority's internal control environment, including details of deficiencies identified, in Section one and Appendix One of this report.
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts	We identified no actual or suspected fraud involving the Authority's Member or Officers with significant roles in internal control, or where the fraud resulted in a material misstatement in the financial statements.
Significant difficulties	No significant difficulties were encountered during the audit.
Modifications to auditor's report	There are no modifications to our audit report.
Disagreements with management or scope limitations	The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.
Other information	No material inconsistencies were identified related to other information in the Narrative Report or Annual Governance Statement. These reports were found to be fair, balanced and comprehensive, and compliant with applicable requirements.
Our declaration of independence and any breaches of independence	No matters to report. The engagement team and others in the firm, as appropriate, the firm and, when applicable, KPMG member firms have complied with relevant ethical requirements regarding independence. See Appendix 6 for further details.

Required communications with the Audit Committee (cont.)

Required Communication	Commentary
Accounting practices	<p>Over the course of our audit, we have evaluated the appropriateness of the Authority’s accounting policies, accounting estimates and financial statement disclosures. In general, we believe these are appropriate.</p> <p>We have set out our view of the assumptions used in valuing pension assets and liabilities at page 15.</p>
Significant matters discussed or subject to correspondence with management	<p>There were no significant matters arising from the audit were discussed, or subject to correspondence, with management.</p>



Declaration of independence

ASSESSMENT OF OUR OBJECTIVITY AND INDEPENDENCE AS AUDITOR OF ROTHERHAM METROPOLITAN BOROUGH COUNCIL

Professional ethical standards require us to provide to you at the conclusion of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code of Audit Practice, the provisions of Public Sector Audit Appointments Limited's ('PSAA's') Terms of Appointment relating to independence, the requirements of the FRC Ethical Standard and the requirements of Auditor Guidance Note 1 - General Guidance Supporting Local Audit (AGN01) issued by the National Audit Office ('NAO') on behalf of the Comptroller and Auditor General.

This Statement is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners, Audit Directors and staff annually confirm their compliance with our ethics and independence policies and procedures. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Communications
- Internal accountability
- Risk management
- Independent reviews.

We are satisfied that our general procedures support our independence and objectivity.

Declaration of independence (cont.)

Independence and objectivity considerations relating to the provision of non-audit services

Summary of fees

We have considered the fees charged by us to the authority for professional services provided by us during the reporting period. We have detailed the fees charged by us to the authority for significant professional services provided by us during the reporting period in Appendix 7, as well as the amounts of any future services which have been contracted or where a written proposal has been submitted. Total fees charged by us for the period ended 31 March 2018 can be analysed as follows:

	2017-18 £	2016-17 £
Audit of the Authority	140,828	144,028
Total audit services	140,828	144,028
Audit related assurance services	0	5,780
Mandatory assurance services	15,826	15,826
Other services	16,500	0
Total Non Audit Services	32,326	21,606

We are also in the process of agreeing the fees for the 2017/18 Teachers Pension Audit and Pooling of Housing Capital Receipt Audit.

We are required by AGN 01 to limit the proportion of fees charged for non-audit services (excluding mandatory assurance services) to 70% of the total fee for all audit work carried out in respect of the Authority under the Code of Audit Practice for the year. The ratio of non-audit fees to audit fees for the year was 0.23:1. We do not consider that the total of non-audit fees creates a self-interest threat since the absolute level of fees is not significant to our firm as a whole.

Facts and matters related to the provision of non-audit services and the safeguards put in place that bear upon our independence and objectivity, are set out table on the following page.

Declaration of independence (cont.)

Analysis of Non-audit services for the year ended 31 March 2018

Description of scope of services	Principal threats to independence and Safeguards applied	Basis of fee	Value of services delivered in the year ended 31 March 2018 £	Value of services committed but not yet delivered £
Audit-related assurance services				
Grant Certification – Teachers Pensions Return and Pooling of Housing Capital Receipts Return	<p>The nature of these audit-related services is to provide independent assurance on each of these returns. As such we do not consider them to create any independence threats.</p> <p>We have considered the following threats to independence and have concluded there are none that apply to this audit:</p> <ul style="list-style-type: none">- Self interest- Assumption of management responsibility- Self review- Familiarity- Advocacy- Intimidation	Fixed Fee	0	0
			The fee for this work is yet to be agreed as we are awaiting details of the scope of the work from the relevant body.	
Mandatory assurance services				
Grant Certification – Housing Benefit Subsidy Return	<p>The nature of this mandatory assurance service is to provide independent assurance on each of the returns. As such we do not consider it to create any independence threats.</p> <p>As part of the PSAA contract, we are required to undertake the housing benefits audit work. As such appropriate safeguards have been applied by PSAA.</p>	Fixed Fee	2,000	13,826
Non-Audit Work				
Work undertaken to support RMBC’s understanding of their patterns of demand and service area consumption.	<p>We have considered the following threats to independence and have concluded there are none that apply to this audit:</p> <ul style="list-style-type: none">- Self interest- Assumption of management responsibility- Self review- Familiarity- Advocacy- Intimidation	Fixed Fee	£16,500	0

Declaration of independence (cont.)

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Audit Committee.

Confirmation of audit independence

We confirm that as of the date of this report, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the partner and audit staff is not impaired.

This report is intended solely for the information of the Audit Committee of the authority and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

KPMG LLP

KPMG LLP

Audit fees

As communicated to you in our *External Audit Plan 2017-18*, our scale fee for the audit is £140,828 plus VAT (£144,028 in 2016/17), which is a reduction of 2% from the prior year. The prior year audit fee included an agreed uplift for additional work undertaken in relation to VFM.

Our work on the certification of the Authority’s Housing Benefit Subsidy return is not yet complete. The planned scale fee for this is £15,826 plus VAT (£15,826 in 2016/17). Planned fees for other grants and claims which do not fall under the PSAA arrangements have not yet been agreed for 2017/18 (£5,780 in 2016/17), see further details below.

Component of the audit	2017-18 Planned Fee £	2016-17 Actual Fee £
Accounts opinion and value for money work		
PSAA Scale fee (Rotherham Metropolitan Borough Council)	140,828	144,028
Total audit services	140,828	144,028
Mandatory assurance services		
Housing Benefits Certification (work planned for August / September)	15,826	15,826
Total mandatory assurance services	15,826	15,826
Audit-related assurance services		
Teachers’ Pension Return (work planned for August)	3,280 (estimated)	3,280
Pooling of Housing Capital Receipts (work planned for August)	2,500 (estimated)	2,500
Total audit-related assurance services	5,780 (estimated)	5,780
Other non audit services		
Demand and Service Area Consumption Work	16,500	0
Total other non-audit services	16,600	0
Total non-audit services	38,106	21,606
Grand total fees for the Authority	178,934	165,634

All fees quoted are exclusive of VAT.





The key contacts in relation to our audit are:

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointments's website (www.psaa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Tim Cutler, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers, by email to Andrew.Sayers@kpmg.co.uk. After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

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METROPOLITAN BOROUGH OF ROTHERHAM

STATEMENT OF ACCOUNTS 2017/18

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STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Authority's responsibilities

The Council is required:

The Authority is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers (the Chief Financial Officer) has responsibility for the administration of those affairs;
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- Approve the Statement of Accounts.

Certificate

I confirm that the Council has met these responsibilities and that this Statement of Accounts was approved at the Audit Committee meeting held on 30 July 2018.

Signed on behalf of Rotherham MBC

Audit Committee Chair

30 July 2018

The Chief Financial Officer's responsibilities

The Chief Financial Officer is responsible for the preparation of the Statement of Accounts (which includes the financial statements) in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('the Code').

In preparing this Statement of Accounts, the Chief Financial Officer has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the Code;
- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities;
- assessed the Authority's [and the Group's] ability to continue as a going concern, disclosing, as applicable, matters related to going concern;
- used the going concern basis of accounting on the assumption that the functions of the Authority [and the Group] will continue in operational existence for the foreseeable future; and
- maintained such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

I certify that the Statement of Accounts gives a true and fair view of the financial position of the Authority at 31 March 2018 and of its income and expenditure for the year then ended.

Chief Financial Officer – Judith Badger CPFA

30 July 2018

Explanation of the Financial Statements

The Statement of Accounts summarises the Council's financial performance during the year ended 31 March 2018 and shows its overall financial position at the end of that period.

The Statement is prepared in accordance with the Code of Practice on Local Authority Accounting (the Code), as published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Code is based on approved accounting standards issued by the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC), except where these are inconsistent with specific statutory requirements.

The principle bases, conventions, rules and practices that specify how the effects of transactions and other events are reflected in the financial statements of the Council are set out in the section of this report headed 'Statement of Accounting Policies'. These accounting policies are kept under review and updated where appropriate to take account of changes in accounting practice adopted within the Code.

The Statement of Accounts comprises:

- **Statement of Responsibilities for the Statement of Accounts** (Page 1) – which details the respective responsibilities of the Council and its chief financial officer for the accounts;
- **An explanation of the financial Statements** (Page 2) – which details the components of the Financial Statements;
- **A Statement of Accounting Concepts and Policies** (Page 11) – These are the principle bases, conventions, rules and practices that specify how the effects of transactions and other events are reflected in the financial statements. The accounting concepts and policies that have been applied in preparing the Council's 2017/18 financial statements are detailed on Page 11;
- **Financial Statements and related disclosure notes** – which are explained further below.

For the sake of clarity, the Accounts and Audit Regulations 2015 has clarified that the Annual Governance Statement does not form part of the Statement of Accounts although there is an expectation that it is published alongside the Statement of Accounts. The Council follows this practice.

To comply with the Accounts and Audit Regulations 2015 and the Code, the Narrative Report will be published alongside the Statement of Accounts.

Financial Statements

The Financial Statements report the Council's financial performance for the year and its financial position.

The Council's financial performance is reported through the:

- **Comprehensive Income and Expenditure Statement (CIES)** (Page 5) – The Comprehensive Income and Expenditure Statement shows the surplus or deficit on the provision of services and other gains and losses recognised in the year prior to any statutory adjustments for the differences between the way transactions are presented on a commercial accounting basis and the amounts which are statutorily required to be met under the Local Authority Accounting Framework from local taxpayers and housing rents to meet the cost of General Fund and HRA services.
- **Movement in Reserves Statement (MIRS)** (Page 6) – The Movement in Reserves Statement shows the net change in the balances on reserves allowing for the aforementioned statutory adjustments. Reserves are analysed into usable reserves and unusable reserves. Usable reserves represent revenue or capital resources which are available to fund revenue or capital expenditure or repay debt in the future, subject to the need to maintain a prudent level of reserves to cover contingencies and unforeseen commitments. Unusable reserves are not available for use.
- **The Cash Flow Statement** (Page 9) – This Statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities.

- **The Housing Revenue Account (HRA) Income and Expenditure Account** (Page 100) – This Account summarises the income and expenditure in respect of the provision of local Council housing accommodation. Councils' are required by statute to account separately for all transactions relating to the cost of providing such accommodation.
- **Collection Fund Account** (Page 108) – By statute, billing Authorities are required to maintain a separate Collection Fund which shows the level of National Non Domestic Rates, Council Tax and the residual Community Charge received by the Council during the accounting period and the distribution of these funds.

The Council's financial position is reported through the:

- **Balance Sheet** (Page 8) - The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) represent the Council's net worth and are matched by the reserves held by the Council. Reserves are analysed into usable and unusable in the same way as in the MIRS.

The financial statements described above include the income, expenditure, assets, liabilities, reserves and cash flows of maintained schools within the control of the Council.

The Council's Financial Statements also include the Metropolitan Debt Administration statement (Page 111) as under the Local Government Act Reorganisation (Debt Administration – South Yorkshire) Order, 1986, the Council became responsible for the administration of the former South Yorkshire County Council Debt with effect from 1 April 1986. A separate account has been established to record the transactions, in order to arrive at an average rate of interest with which to charge the four district councils and joint boards within the South Yorkshire area.

The **Expenditure and Funding Analysis**, included as Note 1 (Page 34) in the Notes to the Accounts, accompanies the Comprehensive Income and Expenditure Statement. It takes the net expenditure that is chargeable to taxation and rents (i.e. the General Fund and Housing Revenue Account) and reconciles it to the Comprehensive Income and Expenditure Statement.

Main Financial Statements and Notes to the Core Financial Statements

Comprehensive Income and Expenditure Statement

Movement in Reserves Statement

Balance Sheet

Cash Flow Statement

Notes to the Core Financial Statements

Comprehensive Income and Expenditure Statement

This Statement shows the surplus or deficit on the provision of services and other gains and losses recognised in the year prior to any statutory adjustments for the differences between the way transactions are presented on a commercial accounting basis and the amounts which are statutorily required to be met under the Local Authority Accounting Framework from local taxpayers and housing rents to meet the cost of General Fund and HRA services. The amount to be met from local taxpayers and housing rents is shown in the Movement in Reserves Statement.

All of the Council's income and expenditure relates to continuing operations.

None of the items included within other comprehensive income and expenditure are reclassifiable within the surplus or deficit on provision of services.

2016/17 Gross Expenditure £000	2016/17 Gross Income £000	2016/17 Net Cost £000		2017/18 Gross Expenditure £000	2017/18 Gross Income £000	2017/18 Net Cost £000	Notes
111,611	(37,849)	73,762	Adult Care and Housing	112,038	(46,660)	65,378	
(32,983)	(85,096)	(118,079)	Local Authority Housing (HRA)	68,803	(84,345)	(15,542)	49
99,188	(28,069)	71,119	CYPS Excl Schools	112,405	(34,583)	77,822	
101,049	(110,862)	(9,813)	Schools	85,343	(90,474)	(5,131)	49
75,604	(30,825)	44,779	Regeneration and Environment Services	81,417	(29,950)	51,467	
17,950	(17,542)	408	Public Health	16,906	(16,975)	(69)	
7,783	(2,730)	5,053	Assistant Chief Executive Office	8,813	(3,247)	5,566	
106,847	(92,355)	14,492	Finance and Customer Services	104,325	(89,557)	14,768	
16,363	(10,431)	5,932	Central Services	13,273	(10,828)	2,445	
503,412	(415,759)	87,653	Cost of Services	603,323	(406,619)	196,704	
62,038	(2)	62,036	Other Operating Expenditure	60,202	(16)	60,187	4
48,141	(1,964)	46,177	Financing and Investment Income and Expenditure	45,943	(1,782)	44,161	5
0	(228,457)	(228,457)	Taxation & Non-Specific Grant Income and expenditure	0	(225,787)	(225,787)	7
613,591	(646,182)	(32,591)	(Surplus) / Deficit on Provision of Services	709,468	(634,204)	75,264	
		(60,972)	(Surplus) on Revaluation of Non Current Assets			(33,505)	38b
		(1,424)	Write down of Met Debt			(1,567)	38a
		142,878	Remeasurements of the Pensions Net Defined Benefit Liability (Asset)			(93,612)	18
		80,481	Other Comprehensive Income & Expenditure			(128,684)	
		47,890	Total Comprehensive Income & Expenditure			(53,420)	

Movement in Reserves Statement

This Statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation and are detailed in Note 37) and 'unusable reserves' (which are not available for use and are detailed in Note 38). The 'surplus or (deficit) on the provision of services' line shows the economic cost of providing the Council's services on a commercial accounting basis. The "adjustments between accounting basis and funding basis under regulations" line represents the statutory adjustments required to arrive at the amounts to be charged to the General Fund Balance for Local Tax purposes. The 'net increase /decrease before transfers to statutory and other reserves' line shows the statutory General Fund Balance before any discretionary transfers to or from statutory and other reserves undertaken by the Council.

2016/17	General Fund (GF) Balance including GF Earmarked Reserves £000	Housing Revenue Account (HRA) £000	Capital Receipts Reserve £000	Major Repairs Reserves £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Total Unusable Reserves £000	Total Council Reserves £000	Notes
Balance as at 1 April 16	72,546	27,933	25,008	3,874	10,606	139,967	(66,086)	73,881	37/38
Movement in reserves during the year:									
Total Comprehensive Income and Expenditure	(72,057)	104,648	0	0	0	32,591	(80,481)	(47,890)	
Adjustments from income & expenditure charged under the accounting basis to the funding basis	53,702	(97,425)	2,414	1,345	877	(39,087)	39,087	0	
Increase / (Decrease) in Year	(18,355)	7,223	2,414	1,345	877	(6,496)	(41,394)	(47,890)	
<i>Schools Balances transferred out on conversion to academy</i>	(952)					(952)		(952)	
Balance as at 31 March 17 carried forward	53,239	35,156	27,422	5,219	11,483	132,519	(107,480)	25,039	

2017/18	General Fund (GF) Balance including GF Earmarked Reserves £000	Housing Revenue Account (HRA) Balance including HRA earmarked Reserves £000	Capital Receipts Reserve £000	Major Repairs Reserves £000
Balance as at 1 April 17	53,239	35,156	27,422	5,219
Movement in reserves during the year:				
Total Comprehensive Income and Expenditure	(82,395)	7,131	0	0
Adjustments from income & expenditure charged under the accounting basis to the funding basis	66,978	(4,616)	1,393	4,450
Increase / (Decrease) in Year	(15,417)	2,515	1,393	4,450
<i>Schools Balances transferred out on conversion to academy</i>	401			
Balance as at 31 March 18 carried forward	38,223	37,671	28,815	9,669

Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Council may use to provide services subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the capital receipts reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves, are those that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the revaluation reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line "Adjustments between accounting basis and funding basis under regulations".

2016/17 £000		2017/18 £000	Notes
1,115,799	Property, Plant and Equipment	1,102,552	19
6,952	Heritage Assets	6,970	23
29,970	Investment Property	27,827	20
2,064	Intangible Assets	2,577	21
190	Long Term Investments	190	30
4,771	Long Term Debtors	3,909	33
1,159,746	Long Term Assets	1,144,026	
34	Short Term Investments	34	24
1,015	Assets Held For Sale	649	22
702	Inventories (Stock)	692	31
51,580	Short Term Debtors	54,028	33
29,129	Cash and Bank Balances	28,838	34
82,460	Current Assets	84,241	
(32,911)	Bank Overdraft	(1,463)	34
(56,077)	Short Term Borrowing	(148,938)	24
(63,700)	Short Term Creditors	(61,520)	35
(4,390)	Short Term Provisions	(5,204)	36
(157,078)	Current Liabilities	(217,125)	
(5,564)	Long Term Provisions	(5,144)	36
(28)	Long Term Creditors	(28)	35
(447,008)	Long Term Borrowing	(419,702)	24
(605,209)	Other Long Term Liabilities	(505,163)	50
(2,280)	Capital Grants Received in Advance	(2,245)	8
(1,060,089)	Long Term Liabilities	(932,282)	
25,039	Net Assets	78,860	
(132,519)	Usable Reserves	(128,725)	37
107,480	Unusable Reserves	49,865	38
(25,039)	Total Reserves	(78,860)	

Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the authority during the reporting period.

	2016/17 £000	2017/18 £000	Notes
(Surplus)/Deficit on the provision of services	(32,591)	75,264	
Adjustments to net surplus or deficit on the provision of services for non-cash movements	3,268	(97,787)	
Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	25,087	27,551	39
Net cash inflow s from Operating Activities	(4,236)	5,028	
Investing Activities	17,377	24,195	40
Financing Activities	(22,012)	(60,380)	41
Net decrease in cash and cash equivalents	(8,871)	(31,157)	
Cash and cash equivalents at the beginning of the reporting period	(12,653)	(3,782)	34
Cash and cash equivalents at the end of the reporting period	(3,782)	27,375	34

Accounting Policies

- A) Statement of Accounting Policies
- B) Accounting Standards issued but not yet adopted
- C) Critical Judgements in applying Accounting Policies
- D) Assumptions made about the future and other major sources of estimation

A Statement of Accounting Concepts and Policies**1 General Principles**

The Statement of Accounts summarises the Council's transactions for the 2017/18 financial year and its position at the year-end of 31 March 2018. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which those Regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 ("the Code"), supported by International Financial Reporting Standards (IFRS).

The objective of the Statement of Accounts is to provide information about the Council's financial performance, financial position and cash flows that is useful to a wide range of stakeholders in assessing the Council's stewardship of its resources.

Fundamental to making this assessment is that information is both relevant and faithfully represented.

A key feature of relevance is materiality. Information is material if omitting it or misstating it could influence decisions that users make on the basis of financial information presented in the Statement of Accounts. Conversely, there is no need to comply with the accounting principles or disclosure requirements of the Code where information is not material.

Information is faithfully represented if it is complete, unbiased and properly determined using appropriate estimation techniques and judgements.

The accounting policies are the principle bases, conventions, rules and practices that specify how the effects of transactions and other events are reflected in the Statement of Accounts. The accounting policies and estimation techniques selected are those that best assist users in their understanding of the financial information presented or disclosed in the Statement of Accounts. The expectation is that this will be achieved by selecting accounting policies that are compliant with the Code.

Consistent policies are applied both within the year and between years. Where policies have changed the reason and effect is disclosed.

The underlying assumptions made in preparing the Statement of Accounts are that financial performance is reported on an accruals basis and that the Council is a going concern.

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

The CIES is reported using total cost principles under international financial reporting standards not the way in which local government is funded. The income and expenditure reported in the CIES will not therefore correspond to the outturn charged to the General Fund and HRA reported against the Council's budget.

Note 1 in the Notes to the Core Financial Statements, the "Funding and Expenditure Analysis" provides a high level reconciliation of the expenditure analysis reported in the CIES to the net amount charged to the General Fund and HRA which is to be met by taxpayers and council house tenants together with additional disclosure on material reconciling adjustments.

2 Changes in Accounting Policies and Estimates and Errors

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied unless the Code specifies that the change should be applied prospectively.

Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

3 Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received.

The general principle is that revenue is measured at the fair value of the consideration received which, in most transactions, will be the amount of cash and cash equivalents receivable.

Revenue is recognised when the following conditions have been met::

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Supplies are recorded as expenditure when they are consumed. Where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including those rendered by the Council's officers) are recorded as expenditure when the services are received, rather than when payments are made.
- Interest payable on borrowings (other than that capitalised on qualifying assets) and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where there is evidence that debts are unlikely to be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

Where the Council acts as an agent for another party, income and expenditure are recognised only to the extent that commission is receivable by the Council for the agency services rendered or the Council incurs expenses directly on its own behalf in rendering the services.

4 Overheads and Support Services

Support services are operated, managed and reported as separate segments they are not apportioned across services but instead reported separately in their own right in the Comprehensive Income and Expenditure Statement. Under the Council's current structure such costs predominantly fall within Assistant Chief Executive's or Finance and Customer Services.

5 Debtors

Debtors are recognised when the Council has delivered or tendered a supply of goods or services. They are recognised and measured at fair value when revenue has been recognised, except for a financial asset where they form part of the asset's carrying value (see accounting policy note 22). Amounts paid in advance of the receipt of goods/services are recognised as a prepayment.

6 Creditors

Creditors are recognised when the Council receives a supply of goods or services. They are recognised and measured at fair value of the consideration payable except for a financial liability where they form part of the liability's carrying value (see accounting policy note 22). If consideration is received but the revenue does not meet the revenue recognition criteria, a receipt in advance is recognised.

7 Tax Income (Council Tax, Residual Community Charge, National Non-Domestic Rates and Rates

Council Tax

Council tax collection is an agency arrangement. Income shown within the Comprehensive Income & Expenditure Statement is the Council's share of the year's accrued income. The difference between this and the amount transferred to the General Fund under statute (representing the demand on the Collection Fund for the year together with the Council's share of the previous year's surplus or deficit which is distributed or recovered) is taken to the Collection Fund Adjustment Account. Debtors are shown exclusive of the proportions attributable to major preceptors.

National Non-Domestic Rates (NNDR)

NNDR collection is an agency arrangement. Business rate income within the Comprehensive Income & Expenditure Statement is the Council's share of the accrued business rate income for the year. The difference between this and the amount transferred to the General Fund under statute (representing the Council's share of the estimated business rate income for the year together with the Council's share of the previous year's surplus or deficit which is distributed or recovered) is taken to the Collection Fund Adjustment Account. The central share (after allowable deductions) of business rate income is paid out of the Collection Fund to central government. Growth in business rate income in an Enterprise Zone area, business rate income from renewable energy schemes and from businesses in New Deal areas is wholly attributable to the Council and transferred in full to the General Fund on an accruals basis. Debtors are shown exclusive of the proportions attributable to major preceptors

8 Inventories

Inventories are measured at the lower of cost and net realisable value except where acquired through a non-exchange transaction when cost is assumed to be equal to fair value at acquisition date.

Inventories are measured at the lower of cost and current replacement cost where held for distribution at no charge or for a nominal charge.

The cost attributed to identify inventory is assigned using the first-in, first-out (FIFO) basis.

9 Work in Progress (Construction Contracts)

Where the Council acts as a contractor, if the outcome of a construction contract can be estimated reliably, the percentage of completion method is used to recognise revenue and expenses. Contract revenue is matched with the contract costs incurred in reaching the stage of completion, resulting in the reporting of revenue, expenses and surplus/deficit which can be attributed to the proportion of work completed.

If the outcome cannot be estimated reliably revenue is recognised only to the extent it is probable costs will be recoverable, and costs are recognised as an expense in the period incurred. When the uncertainties no longer exist, revenue and expenses are recognised using the percentage of completion method.

Should it become apparent that total costs will exceed total revenue the expected deficit on the contract is immediately expensed.

10 Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

11 Provisions, Contingent Liabilities and Contingent Assets

Provisions

A provision is recognised when:

- there is a present obligation (legal/constructive) as a result of a past event
- it is probable a resource outflow will be required to settle the obligation, and
- a reliable estimate of the amount can be made.

For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at each reporting date and adjusted to reflect current best estimates. Where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

If some or all of the expenditure required to settle a provision is expected to be reimbursed (e.g. an insurance claim), this is recognised when it is virtually certain that if the obligation is settled reimbursement will be received. The reimbursement is treated as an asset but the amount recognised does not exceed the amount of the provision.

Contingent Liability

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

A contingent liability is not recognised in the financial statements but disclosed as a note to the accounts. If it becomes probable that a resource outflow will be required for an item previously dealt with as a contingent liability, a provision is recognised.

Contingent Asset

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

A contingent asset is not recognised in the financial statements but disclosed as a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential. If it has become virtually certain an inflow will arise and the asset's value can be measured reliably, a debtor and related revenue are recognised.

12 Reserves

The Council sets aside specific amounts as usable reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain unusable reserves are kept to manage the accounting processes for non-current assets, financial instruments and retirement benefits and that do not represent usable resources for the Council – these reserves are explained in the sections relating to the relevant policies.

13 Government and Non-Government Grants

Government grants and third-party contributions, including donated assets are recognised as due when there is reasonable assurance that;

- the Council will comply with the conditions attached to them
- the grants and contributions will be received

Where conditions of grant remain outstanding which could give rise to grant being repaid, grant is carried in the balance sheet as grant received in advance.

Conditions are stipulations that give the grant funder or donor the right to the return of their monies if it is not used for the purpose specified.

Revenue grants or contributions are credited to the relevant service line within net cost of services if specific or to Taxation and Non-Specific Grant Income if general or non ring-fenced.

Capital grants are credited to Taxation and Non-Specific Grant Income as general grant, but then reversed out of the General Fund Balance in the Movement in Reserves Statement. Where capital grant has been recognised but has yet to be used to finance capital expenditure, it is credited to the Capital Grants Unapplied

Account within reserves. Capital grant that has been used for financing purposes is transferred to the Capital Adjustment Account.

14 Non-current Assets – Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition and creation of or which add to Property, Plant & Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Measurement

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- the initial estimate of the costs of dismantling, removing or restoring an asset where the Council has an obligation to do so and is required to make provision for these costs

Borrowing Costs - The Council has adopted a policy under IAS 23 'Borrowing Costs' to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. In implementing a policy of capitalisation of borrowing costs the Council has determined what it sees as a qualifying asset and what the borrowing costs are, that are to be capitalised.

- **Qualifying Assets** – Assets that take a substantial period of time to get ready for their intended use or sale, where this would cause a significant balance of borrowing costs to accrue.
- **Borrowing costs** – Where the Council borrows to specifically fund a scheme the amount that is capitalised is the actual cost of borrowing less investment income. Where funds are borrowed generally a capitalisation rate is used based on the weighted average of borrowing costs during the period.

The Council only capitalises borrowing costs when in addition to the above it becomes probable that the capital expenditure will result in future economic benefits or service potential to the Council; and that the borrowing costs can be measured reliably.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition will not increase the cash flows of the Council. In the latter case, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income

and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Assets are then carried in the Balance Sheet using the following measurement bases:

- infrastructure, community assets and assets under construction – depreciated historical cost
- dwellings – current value based on existing use value for social housing (EUV-SH)
- all other assets – current value based on existing use (existing use value – EUV) for non-specialised operational assets where there is an active market or where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost.

Depreciated historical cost is used as a proxy for current value for relatively short life assets such as vehicles, plant and equipment.

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. In support of this the Council carries out an annual review of its assets for impairment. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains unless they reverse a previous revaluation or impairment loss in which case they are credited to the relevant service line within net cost of services.

Where decreases in value are identified, the revaluation loss is accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment of Assets

At the end of each reporting period an assessment takes place as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Disposals

The carrying amount of an item is derecognised:

- on disposal through, for example, sale, donation granting of a finance lease or transfer, or
- when no future economic benefits or service potential are expected from its use or disposal as a result, for example, of it being abandoned, scrapped or decommissioned.

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Fair Value is the price that would be received from the selling the asset in an orderly transaction between market participants under the conditions prevailing at the end of the reporting period. Fair value for social housing being disposed of under Right to Buy (RTB) legislation is the discounted RTB value. Depreciation is not charged on Assets Held for Sale.

Assets held solely for capital appreciation purposes are classified as investment properties.

Non-operational property, plant and equipment which do not meet the criteria for reclassification as either Assets Held for Sale or investment properties are held within property, plant and equipment as surplus assets. Surplus assets are carried in the balance sheet at their existing use value and revalued immediately prior to disposal if the current carrying value is materially different in order that the proper gain or loss on disposal can be determined.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the Capital Financing Requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of Non-Current Assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives, the depreciable amount being an asset's depreciated historic cost or fair value at the start of the financial year. No depreciation is charged in the year in which an asset is first

made ready for use. A charge is made in the year in which an asset is derecognised or classified as held for sale. An exception is made for assets without a determinable finite useful life (i.e., freehold land and certain Community Assets) and assets that are not yet available for use (i.e., assets under construction).

Depreciation is calculated on the following bases:

- dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the Council's valuer (Council dwellings 30 Years or now notional Major Repairs Allowance (MRA) if notional MRA reasonably reflects the annual cost of maintaining property in its current condition over a thirty-year period, other buildings and non-operational properties up to 100 years)
- vehicles – a reducing balance method over the useful life of the asset, as advised by a suitably qualified officer (Up to 10 years)
- infrastructure – straight-line allocation over 40 years
- plant, equipment and computers – straight-line allocation over the useful life of the asset as advised by a suitably qualified officer (plant and equipment up to 15 years and computers/office equipment up to 10 years).

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. Componentisation is being introduced with effect from 1 April 2010 as assets are acquired, enhanced, replaced or revalued.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

15 Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding Non-Current Assets during the year:

- depreciation attributable to the assets used by the relevant service
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- amortisation of intangible Non-Current Assets attributable to the service.

The Council is not required to raise council tax to cover depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance. This is known as the minimum revenue provision and the policy is detailed below. Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the revenue provision in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement.

Depreciation, revaluation and impairment losses represent a "real" charge to the HRA to be met by rent payers. However, the Council has taken advantage of the transitional protection offered to housing authorities over a five year period to 2016/17, to reverse out impairment and revaluation losses relating to council dwellings and to cap the amount of depreciation charged on council dwellings at the notional Major Repairs Allowance included within the HRA Business Plan for that year. From 2017/18, depreciation, revaluation and impairment losses will be determined in accordance with the new Item 8 Credit and Item 8 Debit (General) Determination" which came into effect from 1 April 2017. That determination allows the Council to reverse out impairment and revaluation gains and losses relating to both council dwellings and non-dwellings.

Minimum Revenue Provision (MRP)

Prudent provision (MRP) is made annually for the repayment of debt relating to capital expenditure financed by borrowing or credit arrangements. The amount charged is determined having regard to the relevant statutory requirements and related guidance on MRP issued by DCLG.

The recovery of any MRP that has been overcharged in previous years will be effected by taking an MRP holiday in full or in part against future years' charges that would otherwise have been made. The MRP holiday will be taken in such a way as to ensure that the total MRP after taking the holiday will not be less than zero in any financial year.

16 Leases and Lease-Type Arrangements

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

(a) Finance Leases – Council as Lessee

An asset held under a finance lease is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the years in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the asset – applied to write down the lease liability, and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement)

The apportionment is done in such a way as to produce a constant rate of interest on the outstanding liability in each period over the lease term

An asset recognised under a finance lease is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life.

The Council is not required to raise council tax to cover depreciation, revaluation and impairment losses arising on leased assets. Instead, a minimum revenue provision is made towards the deemed capital investment in accordance with statutory requirements and the Council's policy for determining MRP. Depreciation, revaluation and impairment losses are therefore replaced by the revenue provision in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement.

(b) Operating Leases – Council as Lessee

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the

leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments.

(a) Finance Leases – Council as Lessor

Where the Council grants a finance lease over an asset, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- an amount to write down the net investment in the lease including any premiums received, and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement)

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and will be required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are paid, the element for the charge for the acquisition of the interest in the property is used to write down the lease asset. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written-off value of disposals is not a charge against council tax, as the cost of Non-Current Assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated from the Capital Adjustment Account to the General Fund Balance in the Movement in Reserves Statement.

(b) Operating Leases – Council as Lessor

Where the Council grants an operating lease over an asset, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments. Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

17 **PFI and PPP Arrangements**

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes and as ownership of the property, plant and equipment will pass to the Council at the end of the contracts for no additional charge, the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

PFI assets are initially recognised at their fair value when they are first made available for use balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment (this is normally based on the relevant elements of capital cost in the operator's financial model). Initial direct costs of the Council are added to the carrying amount of the asset. Any upfront

contributions made by the authority to the PFI operator, either in the form of a cash lump sum or transfer of property that will not be used to provide services under the arrangement, are applied to write-down the PFI liability at the contribution's value agreed in the operator's financial model when the PFI asset is first made available for use.

PFI assets under construction are recognised on the balance sheet where the terms and conditions of the contractual obligation are such that the economic benefit of the asset flows to the Council at that time, similar to an asset that a Council constructs or develops for its own use.

PFI assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council.

The amounts payable to the PFI operators each year are analysed into five elements:

- fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement
- finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- payment towards liability – applied to write down the Balance Sheet liability due to the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease)
- lifecycle replacement costs – are accounted for as they are incurred. Where the profile of lifecycle expenditure actually incurred by the PFI operator differs significantly from the projected profile included within the PFI model adjustments are made to account for the difference. A prepayment is recognised where planned expenditure paid for through the unitary payment exceeds the actual amount incurred by the PFI operator. An additional liability is recognised where planned expenditure is less than that actually incurred. The prepayment / additional liability is carried forward in the balance sheet until the expenditure is actually incurred / settled, or , in the case of a prepayment when there is no longer an expectation that it will eventually be incurred by the PFI operator at which point it is charged to revenue. Lifecycle replacement costs which represent the refurbishment or replacement of major components are capitalised as Property, Plant and Equipment in accordance with Accounting Policy 14.

18 Investment Properties

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value being the price that would be received from the selling the asset in an orderly transaction between market participants under the market conditions prevailing at the end of the reporting period.. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received and expenditure incurred in relation to investment properties are credited/charged to the Financing and Investment Income line in the Comprehensive Income and Expenditure Statement.

Revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

19 Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure is not capitalised). Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired and any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

20 Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of a non-current asset is charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. This includes transformational expenditure on reform projects capitalised under the capital receipts flexibilities implemented with effect from 1 April 2016 under the Local Government Act 2003. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

21 Heritage Assets

Heritage assets' principal purpose is to contribute to knowledge and culture and which are preserved in trust for future generations for their artistic, cultural, environmental, historical, scientific or technological associations. They are recognised on balance sheet at cost or value. Where they are carried at value, the most appropriate and relevant valuation method is used including, e.g., insurance values. Revaluations are carried out as and when necessary in order to keep carrying values current (there is no requirement for them to be revalued at least every 5 years).

Operational heritage assets (i.e. those that are being held for their heritage characteristics, but are also used for other activities or services) are accounted for as operational assets.

Depreciation is not provided on heritage assets where they have indefinite lives.

Revaluation gains and losses and impairments of heritage assets are accounted for in exactly the same way as for Property, Plant and Equipment.

22 Financial Instruments

Financial Assets

Financial assets are classified into two types:

- loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market
- available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

(a) Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument. They are initially measured at fair value, this being the price that would be received in an orderly transaction between market participants on the date on which the asset is recognised. Ordinarily, this will be the transaction price, such as the principal amount of a loan advanced. Thereafter they are then measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

When the Council makes loans at less than market rates (soft loans) a loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a marginally higher effective rate of interest than the rate receivable, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on the derecognition of an asset are credited/debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

(b) Available-for-Sale Assets

Available-for-sale assets are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g., dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

Assets are maintained in the Balance Sheet at fair value. Fair Value is measured by reference to prevailing interest or market rates using an appropriate valuation technique.

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/loss is recognised in the Surplus/Deficit on Revaluation of Available-for – Sale Financial Assets line in the Comprehensive Income and Expenditure Statement. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain/loss for the asset accumulated in the Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gains and losses that arise on the derecognition of the asset are credited/debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains/losses previously recognised in the Available for Sale Reserve.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses)

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value this being the price that would be paid in an orderly transaction between market participants on the date on which the liability is recognised. Ordinarily, this will be the transaction price, such as the principal amount of a loan received. Thereafter they are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised. For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest) and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

The amount of interest charged to the HRA is determined on a fair and equitable share basis by reference to the HRA's Capital Financing Requirement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Where the Council has entered into financial guarantees that are not required to be accounted for as financial instruments they are reflected in the Statement of Accounts to the extent that provisions might be required or a contingent liability note is needed under the policies set out in the section on Provisions, Contingent Liabilities and Contingent Assets.

23 **Employee Benefits**

Benefits Payable During Employment

Short-term employee benefits (those that fall due wholly within 12 months of the year-end), such as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits for current employees, are recognised as an expense in the year in which employees render service to the Council. An accrual is made against services in the Surplus or Deficit on the Provision of Services for the cost of holiday entitlements and other forms of leave earned by employees but not taken before the year-end and which employees can carry forward into the next financial year. The accrual is made at the remuneration rates applicable in the following financial year. Any accrual made is required under statute to be reversed out of the General Fund Balance by a credit to the Accumulating Compensated Absences Adjustment Account via the Movement in Reserves Statement.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis at the earlier of when the Council can no longer withdraw an offer of those benefits or when the Council recognises the cost of restructuring. .

Redundancy payments are charged to the relevant service line in the Comprehensive Income and Expenditure Statement.

Pension strain costs are charged to Non Distributed Costs in accordance with statutory provisions which require that the General Fund be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards.

Post-Employment Benefits

Employees of the Council are members of three separate pension schemes:

- The National Health Service Pension Scheme, administered by the NHS Business service

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education
- The Local Government Pensions Scheme, administered by South Yorkshire Pensions Authority

All three schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Council.

The arrangements for both the National Health Service and teachers' scheme mean that liabilities for these benefits cannot be identified specifically to the Council. These schemes are therefore accounted for as if they were a defined contributions scheme – no liability for future payments of benefits is recognised in the Balance Sheet and the Public Health and Children's and Education Service line in the Comprehensive Income and Expenditure Statements are charged with the employer's contributions payable to the National Health Service and Teachers' Pensions Scheme in the year.

The Local Government Scheme is accounted for as a defined benefits scheme:

- The liabilities of the South Yorkshire pension fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate based on the indicative rate of return on high quality corporate bonds. In determining these liabilities, an assumption has been made on the advice of our actuaries that 50% of employees retiring will take an increase in their lump sum payment on retirement in exchange for a reduction in their future annual pension
- The assets of the South Yorkshire pension fund attributable to the Council are included in the Balance Sheet at their fair value:
- The change in the net pensions liability is analysed into the following components:
 - current service cost – the increase in liabilities as result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
 - past service cost – the increase in liabilities arising from current year decisions as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
 - net interest – interest receivable on the fair value of plan assets held at the start of the period adjusted for changes in plan assets during the year as a result of contributions and benefit payments less the interest payable on pension liabilities both determined using the discount rate based on high quality corporate bonds used to measure the defined benefit obligation at the beginning of the period – debited/credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
 - remeasurements - return on plan assets (net of admin expenses and excluding amounts included in net interest) and actuarial gains/losses that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions debited/credited to the Pensions reserve as Other Comprehensive Income and Expenditure
 - contributions paid to the South Yorkshire pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

- In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact on the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

24 Repayment of Debt – Metropolitan Debt

The Council is responsible for administering the former South Yorkshire County Council debt portfolio. Part of this debt portfolio is the Council's own liability (as a former member of the SYCC) and as such it will make its own principal and interest payments. Principal repayments are based on a 10% Sinking Fund using a methodology prescribed in Statutory Instrument 1986 No. 437 and will be extinguished by 2020/21.

25 Value Added Tax (VAT)

VAT payable is included only to the extent that it is irrecoverable from HM Revenue & Customs, whilst VAT receivable is excluded from income. The net amount due from/to HMRC at the end of the financial year is included within debtors or creditors.

26 Events after the Reporting Period

Events after the reporting period are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect disclosure is made in the notes of the nature of the events and their estimated financial effect

Events taking place after the date the Strategic Director of Finance and Customer Services authorises the Accounts for issue are not reflected in the Statement of Accounts.

27 Exceptional Items

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance.

28 Interests in Companies and Other Entities

Where the Council exercises control, shares control or exerts a significant influence over another entity, and the Council's interests are material in aggregate, it will prepare Group Accounts. The Council's interest in another entity can be contractual or non-contractual, and may be evidenced by, but is not limited to, the holding of equity or debt instruments in the entity as well as other forms of involvement such as the provision of funding, liquidity support, credit enhancement and guarantees.

The Council has control over another entity, where it is able to direct the activities of that entity such that it has exposure to or rights over variable returns and can use its power over the entity to affect the returns it receives.

Shared control with another party or parties in a joint venture arises where decisions about activities that significantly affect returns require the unanimous consent of the parties sharing control including the Council.

The Council can exert a significant influence over an associate where the Council has the power to participate in the financial and operating policy decisions of an entity which fall short of control or joint control.

The Council's single entity financial statements include the income, expenditure, assets, liabilities, reserves and cash flows of the local Council maintained schools within the control of the Council..

Where local Council maintained schools convert to academies during the year, the assets, liabilities and reserves of the school are deconsolidated from the Council's single entity accounts at their carrying amount at the date of conversion unless the school has a deficit for which the Council retains responsibility. The Non-Current Assets of the school are derecognised when the Council relinquishes control over school premises which it had held as a local Council maintained school through ownership, legally enforceable rights or some other means.

Interests in companies and other entities are recorded in the Council's balance sheet as financial assets at cost, less any provision for losses.

29 Acquisitions and discontinued operations

Transfers of functions to or from other public sector bodies are accounted for with effect from the date of transfer. Assets and liabilities are transferred at their carrying value at the date of transfer unless otherwise agreed and the balance sheet restated to reflect the value of assets brought onto or removed from the balance sheet. The financial effect of functions transferred, to or from the Council are disclosed separately in the current year as "transferred in" or "transferred out" operations. The financial effect of functions transferred to another public sector body are disclosed separately in the comparative year to enable the performance of continuing operations to be compared on a like for like basis.

A function in this context is an identifiable service or business operation with an integrated set of activities, staff and recognised assets and/or liabilities that are capable of being conducted and managed to achieve the objectives of that service or business operation.

Discontinued operations are activities that cease completely. Income and expenditure relating to discontinued operations are presented separately on the face of the Comprehensive Income and Expenditure Statement.

B) Accounting Standards issued but not yet adopted

Amendments have been made to two accounting standards that will not be adopted by the Code until 2018/19 and a further standard which will not be adopted until the 2019/20 Code. A brief description of the accounting changes and their estimated financial effect is provided.

IFRS 9 Financial Instruments

IFRS9 replaces IAS39 Financial Instruments: Recognition and Measurement. It includes a single classification approach for financial assets driven by cash flow characteristics and how an instrument is managed. It is a forward looking 'expected loss' model for impairment rather than the current 'incurred loss' model. Its adoption in the 2018/19 Code will require a review of all financial assets to ensure they are categorised under the new approach. It will not be necessary to restate comparatives; all adjustments are to be made in 2018/19. It has not yet been possible to assess what the effect of these changes might be, however due to the nature of Instruments held by RMBC it is anticipated any financial impact will be minimal.

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 replaces IAS 18 *Revenue* and IAS 11 *Construction Contracts* and their associated interpretations. The core principle in IFRS 15 for local authorities is that they should recognise revenue to depict the transfer of promised goods or services to the service recipient or customer in an amount that reflects the consideration to which the authority expects to be entitled in exchange for those goods or services. At this stage it is not envisaged that this will result in material changes to the accounts, however a review will be carried out during 2018/19.

IFRS 16 Leases

IFRS 16 replaces IAS17 Leases, it will not be adopted until the 2019/20 Code. The key impact of IFRS 16 will be to bring most leases on balance sheet from April 2019. Transitional arrangements will cover existing contracts but these judgements will have to be made for all new contracts. Preparatory work has begun to ensure compliance with IFRS 16.

Guidance on Local Authority Investments & Minimum Revenue Provision

Over the past years, the economic and regulatory landscape has changed significantly, along with changes in the borrowing and investing activities of local authorities. The Ministry for Housing, Communities and Local Government (MHCLG) have therefore sought to refresh the statutory codes. The principle changes are to set a 50 year maximum asset life, for the calculation of MRP charges, LA's can exceed this where the related debt is PFI or opinion from an appropriately qualified person states an asset will be operational for more than 50 years. The guidance has re-affirmed that net MRP charges must not be a credit. Investments Guidance will be implemented in 2018/19, and MRP changes from 2019/20, they are not expected to materially impact the Council's accounts.

C) Critical Judgements in applying Accounting Policies

In applying the accounting policies set out, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- Back funding pension contributions - The Council is liable to make annual revenue contributions in respect of its Pension Fund deficit liabilities as specified in the actuary's certificate of rates and contributions. Agreement was reached with South Yorkshire Pensions Authority that the amounts due in respect of 2017/18, 2018/19 and 2019/20 could be settled by way of a single payment made in April 2017. The amount settled in April 2017 in respect of 2017/18 was £7.272m, this was a discounted payment in respect of past service deficit. The discount given for doing this and has been apportioned over the three years on a pro rata basis.
- Better Care Fund – The Council entered into a partnership agreement with Rotherham CCG in April 2015 to manage the Better Care Fund (BCF) as a pooled budget arrangement from 2015/16 onwards. A joint assessment was conducted with the CCG on how the arrangement should be accounted for by reference to the Department of Health Group Manual for Accounts 2015/16 (Chapter 3 Annex 1) and the guidance on “Pooled budgets and the Better Care Fund” produced in October 2014 by HFMA /CIPFA. In accordance with this guidance, the Council has recognised income and expenditure and assets and liabilities proportionate to the risks and rewards it enjoys. The total available BCF funding for the year was £32.389m, of which the Council was allocated and recognised in its accounts £21.486m of income and £21.672m of expenditure, resulting in an overspend of £0.186m which was approved by the BCF Board to be supported by underspends elsewhere in the BCF programme.
- Business rates appeals – The introduction of the business rates retention scheme with effect from 1 April 2013, means that the Council shares in the risks and rewards of growth or decline in business rates income with central government and the fire authority. As a consequence the Council recognises on its balance sheet its proportion of business rates assets and liabilities including its share of refunds to business ratepayers as a result of appeal. Valuation Office statistics on appeals lodged and settled since the April 2010 rating valuation to the 2017 revaluation has been used to arrive at the best estimate of the likely level of business rate income collectable up to and including 2017/18 which may have to be refunded as a result of outstanding appeals as at 31 March 2018. Since the 2017 revaluation the appeals process has changed resulting in the Valuation Office no longer providing the same statistics, as a result the addition to the provision for potential refunds relating to amounts billed in 2017/18 has been calculated as a percentage of the amount billed. The Council's share of the provision for appeals £4.317m is shown as a provision in Note 36.

D) Assumptions made about the future and other major sources of estimation

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

MRP

As stated in Accounting Policy Note 15, the Council is required to make a prudent provision (Minimum Revenue Provision or MRP) to repay debt each year relating to capital expenditure financed by borrowing or credit arrangements. The recovery of any MRP that has been overcharged in previous years will be effected by taking an MRP holiday in full or in part against future years' charges that would otherwise have been made. The MRP holiday will be taken in such a way as to ensure that the total MRP after taking the holiday will not be less than zero in any financial year.

Pensions liability

Included in the Council's Balance Sheet at 31 March 2018 is an estimated pensions liability of £371m. This compares to £466m at 31 March 2017 and £320m at 31 March 2016. The volatility in the amount of the liability is due to it being highly sensitive to a number of key assumptions used to determine pension fund liabilities, including the rate at which future liabilities are discounted to present value terms, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates, indexation of pensions and the rate of inflation. The sensitivity analysis provided in Note 18 sets out how small changes to these key assumptions can result in a material change to the pensions liability. A firm of consulting actuaries is engaged by South Yorkshire Pensions Authority to provide expert advice about the best assumptions to be applied based on information available each year end.

Property, Plant and Equipment

Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the authority will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets. If the useful lives of the assets reduce, depreciation increases and the carrying amount of the assets falls.

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Note 1 Expenditure and Funding Analysis

The objective of the Expenditure and Funding Analysis (EFA) is to demonstrate to council tax [and rent] payers how the funding available to the authority, i.e. government grants, rents, council tax and business rates for the year, has been used to provide services compared with those resources consumed or earned by authorities in accordance with generally accepted accounting practices (as shown in the Comprehensive Income and Expenditure Statement (CIES). The EFA also shows how this expenditure is allocated for decision making purposes between the Council's. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the CIES on page 5.

2016/17				2017/18		
Net Expenditure Chargeable to the General Fund and HRA Balances £000	Adjustments between the Funding and Accounting Basis £000	Net Expenditure in the Comprehensive Income and Expenditure Statement £000		Net Expenditure Chargeable to the General Fund and HRA Balances £000	Adjustments between the Funding and Accounting Basis £000	Net Expenditure in the Comprehensive Income and Expenditure Statement £000
71,354	2,408	73,762	Adult Care and Housing	63,920	1,458	65,378
(7,224)	(110,855)	(118,079)	Local Authority Housing (HRA)	(2,515)	(13,027)	(15,542)
69,866	1,253	71,119	Children and Young People's Services excluding schools	75,312	2,510	77,822
2,295	(12,108)	(9,813)	Schools	1,561	(6,692)	(5,131)
41,506	3,273	44,779	Regeneration and Environment Services	43,724	7,743	51,467
408	0	408	Public Health	(70)	1	(69)
5,031	22	5,053	Assistant Chief Executive Office	5,243	323	5,566
13,787	705	14,492	Finance and Customer Services	13,140	1,628	14,768
(185,891)	191,823	5,932	Central Services	(187,413)	189,858	2,445
11,132	76,521	87,653	Net Cost of Services	12,902	183,802	196,704
0	62,876	62,036	Other Operating Expenditure	0	60,186	60,186
0	45,337	46,177	Financing and Investment Income and Expenditure	0	44,161	44,161
0	(228,457)	(228,457)	Taxation & Non-Specific Grant Income and expenditure	0	(225,787)	(225,787)
11,132	(43,723)	(32,591)	(Surplus) / Deficit	12,902	62,362	75,264
		(100,479)	Opening General Fund and HRA Balance as at 1 April			(88,395)
		11,132	Less (Surplus) / Deficit on General Fund Balance in year			12,902
		952	Transfer from/to reserves to/from Academies			(401)
		(88,395)	Closing General Fund and HRA Balance at 31 March			(75,894)

Note 1a **Adjustments in Expenditure and Funding Analysis**

2016/17					2017/18			
Capital Adjustment £000	Pension Adjustment £000	Other Adjustment £000	Total £000		Capital Adjustment £000	Pension Adjustment £000	Other Adjustment £000	Total £000
2,817	40	(449)	2,408	Adult Care and Housing	733	1,499	(774)	1,458
(97,265)	10	(13,600)	(110,855)	Local Authority Housing (HRA)	308	544	(13,879)	(13,027)
1,185	50	18	1,253	Children and Young People's Services excluding schools	309	1,951	250	2,510
4,628	(17,850)	1,114	(12,108)	Schools	2,099	(7,746)	(1,045)	(6,692)
7,192	58	(3,977)	3,273	Regeneration and Environment Services	11,031	2,064	(5,352)	7,743
0	0	0	0	Public Health	0	0	1	1
13	7	2	22	Assistant Chief Executive Office	12	307	4	323
689	25	(9)	705	Finance and Customer Services	644	889	95	1,628
7,823	23	183,977	191,823	Central Services	3,220	2,472	184,166	189,858
44,626	0	18,250	62,036	Other Operating Expenditure	43,550	0	16,636	60,186
2,441	11,442	31,454	46,177	Financing and Investment Income and Expenditure	2,210	11,004	30,947	44,161
4,344	0	(232,801)	(228,457)	Taxation & Non-Specific Grant Income and expenditure	2,799	0	(228,586)	(225,787)
(21,507)	(6,195)	(16,021)	(43,723)		66,915	12,984	(17,537)	62,362

Notes:

- Capital Adjustments - This column adds in depreciation and impairment and revaluation gains and losses in the services line, and for:
 - Other operating expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.
 - Financing and investment income and expenditure – the statutory charges for capital financing i.e. Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.
 - Taxation and non-specific grant income and expenditure – capital grants are adjusted for as it is income that is not chargeable under generally accepted accounting practices. Revenue grants receivable in the year are adjusted to take out any grants that have conditions that have not been met in the year. This line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.
- Pensions Adjustments - Net change for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:
 - For services — this is the removal of the employer pension contributions made by the authority as allowed by statute and replaced with current and past service costs.
 - For Financing and investment income and expenditure — the net interest on the defined benefit liability is charged to the CIES.
- Other Adjustments i.e. between amounts debited/credited to the CIES and amounts payable/receivable to be recognised under statute:
 - For Financing and investment income and expenditure — this column recognises adjustments to the General Fund for the timing differences for premiums and discounts.
 - The charge under Taxation and non-specific grant income and expenditure — represents the difference between what is chargeable under statutory regulations for council tax and NDR that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

Note 1b **Income and Expenditure Analysed by Nature**

The authority's expenditure and income is analysed as follows:

Expenditure/Income	2016/17 £000	2017/18 £000
Expenditure		
Employee benefits expenses	213,453	211,496
Other services expenses	357,056	364,567
Depreciation, amortisation, impairment	(51,693)	41,245
Interest payments	32,932	32,242
Precepts and levies	16,455	15,956
Payments to Housing Capital Receipts Pool	1,924	1,907
Gain on the disposal of assets	43,464	42,055
Total expenditure	613,591	709,468
Income		
Fees, charges and other service income	(186,029)	(187,559)
Interest and investment income	(462)	(254)
Income from council tax and non domestic rates	(132,782)	(134,697)
Government grants and contributions	(326,909)	(311,694)
Total income	(646,182)	(634,204)
Surplus or Deficit on the Provision of Services	(32,591)	75,264

Note 1c **Income Analysed by Segment**

The authorities fees charges and other income is analysed as follows:

	2016/17 Income from Services £000	2017/18 Income from Services £000
Adult Care and Housing	(36,078)	(42,949)
Local Authority Housing (HRA)	(85,096)	(84,131)
Children and Young People's Services excluding schools	(6,258)	(5,254)
Schools	(7,803)	(6,069)
Regeneration and Environment Services	(30,022)	(29,296)
Public Health	(216)	0
Assistant Chief Executive Office	(2,727)	(2,584)
Finance and Customer Services	(3,695)	(4,882)
Central Services	(10,397)	(10,152)
Other income below Cost of Service	(3,737)	(2,242)
Total Income analysed on a segmental basis	(186,029)	(187,559)

Note 2 Adjustments between Accounting Basis and Funding Basis

This note details the statutory adjustments for the differences between the way transactions are presented on a commercial accounting basis and the amounts which are statutorily required to be met under the Local Authority Accounting Framework from local taxpayers and housing rents to meet the cost of General Fund and HRA services.

Movements in Usable Reserves 2016/17						
	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants Unapplied £000	Movements in Unusable Reserves £000
<u>Adjustments primarily involving the Capital Adjustment Account:</u>						
Charges for depreciation and impairment of non current assets	21,277	13,675	0	0	0	(34,952)
Amortisation of intangible assets	728	84	0	0	0	(812)
Revaluation losses on Property, Plant and Equipment	835	(119,100)	0	0	0	118,265
Capital grants and contributions applied	(17,102)	(262)	0	0	877	16,487
Revenue expenditure funded from capital under statute	8,292	0	0	0	0	(8,292)
Gain/loss on disposal of non current assets charged to the Comprehensive Income and Expenditure Statement	44,618	(445)	7,894	0	0	(52,067)
Debt Repayment			4,709			(4,709)
Statutory provision for the financing of capital investment	(40)	0	0	0	0	40
Capital expenditure charged against the General Fund and HRA balances	(87)	(5,466)	0	0	0	5,553
<u>Adjustments primarily involving the Capital Receipts Reserve:</u>						
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	(7,949)	0	0	7,949
Use of the Capital Receipts Reserve to repay debt			(317)			317
Contribution from the Capital Receipts Reserve to finance payments to the Government capital receipts pool	1,924	0	(1,924)	0	0	0
Transfer from Deferred Capital Receipts Reserve upon receipt of cash	0	0	1	0	0	(1)
<u>Adjustment primarily involving the Major Repairs Reserve:</u>						
Reversal of Major Repairs Allowance credited to the HRA	0	13,471	0	(13,471)	0	0
HRA depreciation to capital adjustment account	0	0	0	33,446	0	(33,446)
Use of the Major Repairs Reserve to finance new capital expenditure	0	0	0	(18,630)	0	18,630
<u>Adjustment primarily involving the Financial Instruments Adjustment Account:</u>						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(25)	114	0	0	0	(89)

Movements in Usable Reserves 2016/17 continued						
	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants Unapplied £000	Movements in Unusable Reserves £000
<u>Adjustments primarily involving the Pensions Reserve:</u>						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see note 18)	18,439	1,627	0	0	0	(20,066)
Employer's pension contributions and direct payments to pensioners payable in the year	(25,135)	(1,126)	0	0	0	26,261
<u>Adjustments primarily involving the Collection Fund Adjustment Account:</u>						
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(1,262)	0	0	0	0	1,262
<u>Adjustment primarily involving the Accumulated Absences Account:</u>						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	1,240	3	0	0	0	(1,243)
Total Adjustments	53,702	(97,425)	2,414	1,345	877	39,087

Movements in Usable Reserves 2017/18						
	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants Unapplied £000	Movements in Unusable Reserves £000
<u>Adjustments primarily involving the Capital Adjustment Account:</u>						
Charges for depreciation and impairment of non current assets	20,292	11,158	0	0	0	(31,450)
Amortisation of intangible assets	464	85	0	0	0	(549)
Revaluation losses on Property, Plant and Equipment & Investment Properties	(3,482)	(2,242)	0	0	0	5,724
Capital grants and contributions applied	(14,069)	(4,119)	0	0	2,863	15,325
Revenue expenditure funded from capital under statute	6,200	223	0	0	0	(6,423)
Gain/loss on disposal of non current assets charged to the Comprehensive Income and Expenditure Statement	43,133	(1,195)	9,349	0	0	(51,287)
Debt Repayment			192			(192)
Statutory provision for the financing of capital investment	0	0	0	0	0	0
Capital expenditure charged against the General Fund and HRA balances	(14)	(7,028)	0	0	0	7,042
<u>Adjustments primarily involving the Capital Receipts Reserve:</u>						
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	(6,049)	0	0	6,049
Use of receipts to repay debt	0	0	(192)	0	0	192
Contribution from the Capital Receipts Reserve to finance payments to the Government capital receipts pool	1,907	0	(1,907)	0	0	0
Transfer from Deferred Capital Receipts Reserve upon receipt of cash	0	0	0	0	0	0
<u>Adjustment primarily involving the Major Repairs Reserve:</u>						
Transfer from HRA to Major Repairs Reserve re notional MRA	0	(2,619)	0	2,619	0	0
HRA depreciation to capital adjustment account	0	0	0	17,463	0	(17,463)
Use of the Major Repairs Reserve to finance new capital expenditure	0	0	0	(15,632)	0	15,632
<u>Adjustment primarily involving the Financial Instruments Adjustment Account:</u>						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(26)	36	0	0	0	(10)

Movements in Usable Reserves 2017/18 continued						
	General Fund Balance £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants Unapplied £000	Movements in Unusable Reserves £000
<u>Adjustments primarily involving the Pensions Reserve:</u>						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see note 18)	36,431	2,340	0	0	0	(38,771)
Employer's pension contributions and direct payments to pensioners payable in the year	(24,529)	(1,259)	0	0	0	25,788
<u>Adjustments primarily involving the Collection Fund Adjustment Account:</u>						
Amount by which council tax income, non-domestic rate income and residual community charge adjustment included in the Comprehensive Income and Expenditure Statement is different from the amount taken to the General Fund in accordance with Regulation	1,321	0	0	0	0	(1,321)
<u>Adjustment primarily involving the Accumulated Absences Account:</u>						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(651)	4	0	0	0	647
Total Adjustments	66,977	(4,616)	1,393	4,450	2,863	(71,067)

Note 3 Transfers to and from Earmarked Reserves

	Balat 1Apr 16 £000	Trans between Reserves 2016/17 £000	Trans out 2016/17 £000	Trans in 2016/17 £000	Balat 31Mar 17 £000	Trans between Reserves 2017/18 £000	Trans out 2017/18 £000	Trans in 2017/18 £000	Balat 31Mar 18 £000
<u>General Fund</u>									
Insurance	246	0	(17)	0	229	0	0	0	229
Insurance Fund Reserve	350	0	0	0	350	0	0	0	350
Transformation Reserve	5,151	0	(2,418)	0	2,733	0	0	0	2,733
Business Rates Reserve	4,000	0	0	0	4,000	0	0	0	4,000
Pensions Reserve	6,000	0	0	0	6,000	0	(1,075)	0	4,925
Revenue Grants Reserve	13,947	0	(5,417)	1,015	9,545	0	(4,707)	989	5,827
DSG Grant Reserve	24	0	(6,395)	1,158	(5,213)	0	(763)	(3,711)	(9,687)
Local Authority Energy Fund (LAEF)	131	0	(127)	67	71	0	0	127	198
Museum	34	0	0	0	34	0	0	0	34
Rotherham Economic Regeneration (RERF)	75	0	(75)	0	0	0	0	0	0
Maintenance of Buildings	433	0	(214)	48	267	0	(112)	48	203
Managed Workspace Repairs & Renewals	193	0	0	32	225	0	0	52	277
PFI - Waste	1,618	0	(299)	1,002	2,321	0	(2,087)	0	234
PFI - Leisure	822	0	0	1,571	2,393	0	0	0	2,393
Schools Declared Savings	37	0	(15)	0	22	0	(22)	0	(0)
PFI - Schools	12,198	0	(2,749)	0	9,449	0	(1,290)	2	8,161
Looked-After Children Reserve	6,000	0	(4,000)	0	2,000	0	(2,000)	1,000	1,000
Academy Conversion Reserve	1,200	0	(18)	108	1,290	0	(1,261)	0	29
Housing Improvement Programme	10	0	0	0	10	0	0	0	10
Aston CSC Repair / Maintenance Fund	120	0	0	20	140	0	0	20	160
Kimberworth The Place Repairs / Maintenance Fund	10	0	0	5	15	0	0	5	20
Riverside House Repairs / Maintenance Fund	232	0	0	51	283	0	0	0	283
EMS Implementation Fund	195	0	0	38	233	0	(150)	0	83
Furnished Homes	3,276	0	(226)	0	3,050	0	0	0	3,050
Selective Licensing Reserve	702	0	(18)	156	840	0	(65)	76	851
Memb Comn Leadership Fund	0	0	0	18	18	0	0	13	31
Emergency Planning	0	0	0	71	71	0	0	18	89
Rotherham Partnership	0	0	0	71	71	0	(34)	0	37
School Insurance	0	0	0	8	8	0	(8)	0	0
School Music	0	0	0	28	28	0	(2)	0	26
School Catering	0	0	0	125	125	0	(125)	0	0
Dispersed Units	0	0	0	79	79	0	0	16	95
Area Assembly Ward	0	0	0	0	0	0	0	13	13
Treasury Management	0	0	0	0	0	0	0	61	61
Total	57,004	0	(21,988)	5,671	40,687	0	(13,701)	(1,271)	25,715
Total HRA (within grant reserve)	0	0	0	0	0	0	0	163	163
Total General Fund	57,004	0	(21,988)	5,671	40,687	0	(13,701)	(1,434)	25,552

Earmarked General Fund Reserves

This note sets out the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet expenditure in 2017/18. A brief description of the purpose of each reserve is provided as follows.

- (i) Insurance Reserve
The majority of this reserve relates to insurance settlement money in respect of Museum and Art Collections, with a small residual balance in respect of Leisure and Green Spaces.
- (ii) Insurance Fund Reserve
This reserve has been set up to cover claims incurred but not yet reported to the Council and not taken account of in the Insurance Provision.
- (iii) Transformation Reserve
This reserve is to be used to fund costs associated with transformational change in the delivery of Council services.
- (iv) Business Rates Reserve
This reserve is to cover residual risks relating to appeals, NHS trusts claim for charitable relief and business closures.
- (v) Pension Reserve
The Pension Reserve is to be used to meet the Council's pension obligations across the medium term.
- (vi) Revenue Grant Reserve
The Revenue Grant Reserve represents revenue grants which have been recognised within income as the grant's terms and conditions have been met but yet to be applied. They will be used to meet future spending plans relevant to the grant.
- (vii) DSG Grant Reserve
The Dedicated School Grant (DSG) is a ring fenced grant for Schools. There is currently a deficit balance on the Dedicated Schools Grant, which in accordance with Government policy, can be carried forward for the deficit to be addressed in future years. Childrens' and Young Peoples Service have implemented a plan to recover the deficit in later years
- (viii) Local Authority Energy Fund (LAEF)
This reserve has been set up to provide initial investment for energy conservation work. It is anticipated that such investment will generate long term savings. Money is advanced to spending services and is repaid over a predetermined period, the repayments generating resources for further investment.
- (ix) Museum
This reserve was created principally for the Rotherham Museum to enable the purchase of exhibits that come onto the market on an irregular basis.
- (x) Rotherham Economic Regeneration Fund (RERF)
Set up to defray the costs associated with supporting/funding externally funded schemes across several financial years and facilitating the economic regeneration of the borough, and to allow carry forward of funds on an annual basis.
- (xi) Maintenance of Buildings
Set up to defray the cost of Maintenance of Buildings across the Council by focussing on a more corporate and strategic approach.
- (xii) Managed Workspace Repairs and Renewals
Set up to defray the cost of a rolling programme of maintenance on the managed workspace buildings and a programme of equipment renewal. The nature of the initial grant funding of these buildings excludes them from the programme of maintenance for other council buildings, creating the necessity for a separate reserve.
- (xiii) PFI – Waste

This PFI arrangement will last for 25 years. The reserve recognises the fact that receipts and payments into the reserve are smoothed out over the life of the contract so that the balance on the reserve at the end of the contract is nil.

(xiv) PFI – Leisure

This PFI arrangement will last for 33 years and 3 months. The reserve recognises the fact that receipts and payments into the reserve are smoothed out over the life of the contract so that the balance on the reserve at the end of the contract is nil.

(xv) Schools Declared Savings

Under the Council's Scheme for the Local Management of Schools, all Primary, Secondary and Special Schools are allowed to invest, internally with the Council, sums set aside from their delegated budgets, for use in future years. Interest can be earned on such savings. These sums were initially allocated to schools as part of their formula-funded budgets and are, therefore, exclusively earmarked for use by those same schools in the future.

(xvi) PFI – Schools

This PFI arrangement will last for 30 years. The reserve recognises the fact that receipts and payments into the reserve are smoothed out over the life of the contract so that the balance on the reserve at the end of the contract is nil.

(xvii) Looked-After Children

This has been set up to support the Council's Revenue Budget on a £3m, £2m and £1m basis over the three financial years, 2016/17 to 2018/19.

(xviii) Academy Conversion

This reserve has been created to manage the potential financial impact of schools converting to Academy status.

(xix) Housing Improvement Programme (HIP)

This reserve has been created to support HIP's role in enabling decent affordable housing in the private sector. It covers the Works in Default Scheme.

Under the Works in Default scheme Environmental Health Officers may require private landlords to do improvements to their properties. An amount of £9,554 has been set aside in the event that landlords default in reimbursing the Council for the cost of the improvement works.

(xx) Aston CSC Repair & Maintenance Fund

This reserve has been created for agreed cyclical redecoration and major repair with NHS Rotherham.

(xxi) Kimberworth The Place Repairs & Maintenance Fund

This reserve has been created for agreed cyclical redecoration and major repair with NHS Rotherham.

(xxii) Riverside Repairs & Maintenance Fund

This reserve has been created for agreed cyclical lifecycle maintenance, major repair and redecoration of the building, in line with the Council's obligations in respect of the lease agreement.

(xxiii) Environmental Management System (EMS) Implementation Fund

This reserve has been created to provide funding for a temporary post of Carbon Reduction Officer to work towards reducing CO2 emissions.

(xxiv) Furnished Homes Reserve

The Rotherham Furnished Homes Scheme offers a range of furniture and other household goods to tenants to assist them in establishing and sustaining their home in exchange for an additional service charge. The scheme was transferred from the HRA to the General Fund on 1 April 2014 in order to maximise the Scheme's flexibility and capacity to respond to the changing circumstances brought about by welfare reform and the introduction in 2012/13 of HRA self-financing. The reserve is being used to provide financial resilience for the existing scheme, to support any future expansion of the service, and, to meet additional financing

costs in future years following the capitalisation of furniture purchases with effect from 2014/15.

(xxv) Selective Licensing

This reserve has been created in line with the requirement for the service to be self-financing.

(xxvi) Other Reserves

The remaining reserves have been set up to hold approved carry forwards for use in future years.

Note 4 **Other Operating Expenditure**

2016/17 £000		2017/18 £000	Notes
2,390	Parish Council precepts	2,565	
14,065	Levies payable	13,391	
1,924	Payments to the Government Housing Capital Receipts Pool	1,907	
43,464	Loss on disposal of non current assets	42,055	49
193	Revaluation loss on disposal of Assets Held for Sale - current assets	268	22
62,036	Total	60,186	

Note 5 **Financing and Investment Income and Expenditure**

2016/17 £000		2017/18 £000	Notes
32,932	Interest payable and similar charges	32,242	26
11,442	Net interest on the net defined benefit liability (asset)	11,004	18
(462)	Interest receivable and similar income	(254)	26
2,265	Income and expenditure relating to Investment Properties and changes in their fair value	1,169	20
46,177	Total	44,161	

Note 6 **Surplus / Deficit on Trading Services, including dividends from Companies**

The Council considers a trading operation exists where the service it provides is competitive i.e. the service user has the choice to use an alternative supplier than the Council and the Council charges the user on a basis other than a charge that equates to the costs of supplying the service.

The trading accounts operated by the Council during the year are as follows:

2016/17				2017/18		
Expenditure	Income	(Surplus) / Deficit		Expenditure	Income	(Surplus) / Deficit
£000	£000	£000		£000	£000	£000
18,283	(18,916)	(633)	Construction, Street Cleansing and Landscaping	18,710	(19,777)	(1,067)
2,024	(2,034)	(10)	Vehicle Maintenance	1,315	(1,199)	116
1,710	(1,995)	(285)	Property Services – Fee-billing	1,577	(2,255)	(678)
1,016	(1,169)	(153)	Engineering – Fee-billing	871	(967)	(96)
5,376	(5,309)	67	Cleaning of buildings	5,517	(5,243)	274
1,045	(1,236)	(191)	Markets	1,007	(884)	123
403	(373)	30	Building Regulations Control	396	(396)	0
10,067	(10,301)	(234)	School Support Services	8,897	(9,024)	(127)
83	(86)	(3)	Dispersed & Furnished Units	120	(135)	(15)
40,007	(41,419)	(1,412)	(Surplus) / Deficit	38,410	(39,880)	(1,470)

Traded services are included in the Comprehensive Income and Expenditure Statement within the Service that they are based. The Council's traded services include:

Construction, Street Cleansing and Landscaping

Streetpride maintains over 680 miles of highways in a clean and safe condition for pedestrians, motorists, other road users and local communities.

Vehicle Maintenance

Management and policy of the Council's vehicle fleet and ensuring legislative standards are maintained.

Property Services – Fee Billing

Quantity surveyors, project managers, architects, valuers involved in the valuation and construction of new and existing Council buildings.

Engineering – Fee Billing

Streetpride provides a design, inspection, assessment service and carries out engineering works to buildings, bridges, structures and highways.

Cleaning of Buildings

Facilities Services provides a cleaning service for schools and other premises owned by Rotherham MBC. This service is also utilised by the NHS in certain buildings.

Markets

The Council operates regular markets in Wath and Rotherham town centre.

Building Regulations Control

Building Control service begins at preplanning application stage and continues throughout the entire planning and construction process. Ultimately the Council aims to provide a service that will achieve

a fast and trouble-free Building Regulation approval and a rapid response inspection process that will assist a project to fully comply with the Building Regulations when complete. From 1st January 2010 a new scheme of Building Regulation charges made under the Building (Local Council Charges) Regulations 2010 has been adopted by the Council.

School Support Services

School support services provides catering, Information Technology Support, Human Resources support, training facilities and the provision of supply staff to schools, teachers absence in-house insurance scheme and schools finance support team.

Dispersed and Furnished Units

To enable continued funding and improvements of emergency accommodation properties “crash pads”. Income from the weekly charge from occupied units is used to contribute to replace fixtures, furniture and furnishings within the temporary units for the homeless.

Note 7 **Taxation and Non Specific Grant Income**

2016/17 £000		2017/18 £000	Notes
94,430	Council Tax Income	100,328	
38,352	Non Domestic Rates	34,369	
25,094	Business Rates grants	31,234	
57,561	Non Ring-fenced government grants	44,467	8
13,020	Capital Grants and Contributions	15,389	8
228,457	Total	225,787	

Note 8 **Analysis of grant income credited to the CIES and capital grant received in advance**

The Council receives certain government grants which are not attributable to specific services. The amount of General Revenue Grants Credited to Taxation and Non Specific Grant Income was as follows:

2016/17 £000		2017/18 £000
39,405	Revenue Support Grant	28,943
9,822	PFI Grant	9,822
8,334	Other Non Specific Revenue Grants	5,702
57,561	Total	44,467

Capital Grants Credited to Taxation and Non Specific Grant Income

2016/17 £000		2017/18 £000
5,546	Department for Transport	6,864
30	Sheffield City Region	0
0	Environment Agency	40
2,070	European Regional Development Fund	0
1,577	Education Funding Agency: LA Maintained Maintenance Grant	1,600
213	Education Funding Agency: Basic Need Pupil Places	(244)
558	Education Funding Agency: LA Maintained Devolved Formula	144
0	Education Funding Agency: Targeted Basic Need	2,022
0	Early Years Capital Fund and Entitlement for 2 year olds	(644)
(10)	Department of Health	0
793	Section 106 Developer Contributions	311
(16)	Department for Communities and Local Government	1,197
0	SOAHP Grant Housing England	3,713
2,259	Other Local Authorities and Partners	386
13,020		15,389

Significant Revenue Grants attributable to specific services and which have therefore been credited to Cost of Services were as follows:

2016/17 £000		2017/18 £000
108,263	Dedicated Schools Grant (Note 16)	99,665
85,384	Housing and Council Tax Benefit: subsidy	81,185
2,368	Sixth Form Funding	1,912
1,146	Troubled Families & Troubled Families Co-ordinator	1,053
7,580	Pupil Premium	6,353
1,625	Housing Benefit and Council Tax Benefit Administration	1,512
430	Youth Offending Teams Grant	432
423	Rotherham Music Hub	423
619	Adult Community Learning Grants	240
2,104	Universal Free School Meals	1,715
86	Year 7 Catch Up Premium	58
169	SEND Implementation Grant (New Burdens)	188
300	Local Sustainable Transport Fund	252
6,162	Social Care Funding	6,166
4,575	Other NHS Funding (including Better Care Fund)	13,291
184	Local Reform & Community Voices Grant	187
1,588	Independent Living Fund	1,535
17,157	Public Health Funding	16,734
304	Police and Crime Commission	304
673	Discretionary Housing Payments (DHPs)	819
250	Police & Crime Commissioner Election	0
421	EU Election Grant	0
182	Adoption Support	231
307	Inter Agency Grant	0
243	Fusion Funding	500
0	Elections Grant	609
0	Domestic Abuse Grant	168
0	Estate Regeneration Enabling Grant	214
0	Department for Transport	104

The Council has received a number of capital grants and contributions that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the funding body if they are not applied for their intended purpose. The balance of capital grant received in advance at the year-end was as follows:

31 Mar 17 £000		31 Mar 18 £000
2,280	Section 106 Developer Contributions	2,245
2,280	Total of Capital Grants Received in Advance	2,245

Section 106 Developer Contributions

Section 106 Developer Contributions are monies paid to the Council by developers as a result of the grant of planning permission where works are required to be carried out or new facilities provided as a result of that permission. The sums are restricted to being spent only in accordance with the agreement concluded with the developer.

The major balances of Section 106 receipts held by the Council at the end of the year end are as follows:

Income £000	Expenditure £000	2016/17 £000		Income £000	Expenditure £000	2017/18 £000
(844)	1,046	1,251	Regeneration & Environment	(382)	806	(826)
0	0	940	CYPS	(115)	31	(1,024)
0	0	89	HRA	(536)	230	(395)
(844)	1,046	2,280	Total	(1,033)	1,067	(2,245)

Note 9 **Acquired and discontinued operations**

The Council did not acquire any new operations in 2017/18.
All of the Council's income and expenditure relates to continuing operations.

Note 10 **Agency Services**

NHS Funded Nursing Care

The Council administers on behalf of Rotherham Clinical Commissioning Group (CCG) the financial process/procedures relating to the payment of NHS funded nursing fees to nursing care providers, under Health Act flexibilities (section 256 of the NHS Act 2006). The agreement covers the fees for NHS funded nursing care, cost of incontinence products, administration costs and nursing cost of assessments. Any overspend against the approved budget will be recharged by the Council to Rotherham CCG, any underspend will be reimbursed by the Council to Rotherham CCG.

The under spend in the current and previous year were as follows:

2016/17 £000		2017/18 £000
(2,204)	Gross income	(2,189)
2,204	Gross expenditure	2,189
0	(Under) / over spend	0

Note 11 **Transport Act**

Authorities are allowed to operate a road charging or workplace charging scheme under the Transport Act 2000. There is no such scheme in place in Rotherham.

Note 12 **Pooled Budgets**

The Council, through Adult Social Services, has a pooled budget arrangement with Rotherham Clinical and Commissioning Group (RCCG) (formerly, NHS Rotherham) in respect of the Better Care Fund to enable joint working under section 75 of the National Health Service Act 2006.

The Better Care Fund is split into two Pools. RMBC host Pool 1 with income of £21.486m, which includes the former Intermediate Care and Equipment pooled budgets together with Occupational Therapy services, falls prevention, jointly commissioned integrated services and management of the Disabled Facilities grant funding. The RCCG host Pool 2 with income of £10.903m.

The finance involved in the arrangements where the Council acts as host is detailed as follows:

2016/17 £000	Better Care Fund - Pool 1 RMBC	2017/18 £000
(9,570)	Rotherham CCG	(10,141)
(2,119)	Rotherham MBC - Capital	(2,311)
(1,717)	Rotherham MBC - Revenue	(9,034)
(13,406)	Total Gross Income	(21,486)
2,119	Capital Expenditure	2,311
11,458	Revenue Expenditure	19,361
13,577	Total Gross Expenditure	21,672
171	Overspend	186
(171)	Use of balances	(186)
0	Net Balance as at 31 March	0

2016/17 £000	Better Care Fund - Pool 2 RCCG	2017/18 £000
(10,867)	Rotherham CCG	(10,853)
(50)	Rotherham MBC	(50)
(10,917)	Total Gross Income	(10,903)
10,746	Revenue Expenditure	10,717
10,746	Total Gross Expenditure	10,717
(171)	Underspend	(186)
171	Transfer of balances	186
0	Net Balance as at 31 March	0

Note 13 Members' Allowances

Members' allowances and expenses during the year totalled £923,981 excluding Joint Council allowances (2016/17 £924,471 excluding Joint Council allowances). The employers' pension contributions associated with these allowances was nil (2016/17 £1,832), as members are no longer eligible for the superannuation scheme.

In the light of the Professor Jay Report on 26 August 2014 and subsequent Corporate Governance Report, Members' allowances and Cabinet Member appointments have been subject to change whilst Commissioners have performed certain functions and oversaw actions which the Council would normally carry out. Detailed information about Members' Allowances can be obtained from the Strategic Director of Finance and Customer Services, Finance and Customer Services Directorate, Riverside House, Main Street, Rotherham, S60 1AE.

2016/17 £000	Members Allowances	2017/18 £000
727	Basic allowance	723
196	Special responsibility allowances	201
1	Travel	0
924	Total Members' Allowances and Expenses	924
2	Employer Pension Costs	0
926	Total	924

Note 14 **Staff Remuneration**

The Accounts and Audit Regulations 2015 require the disclosure of certain information relating to officers' remunerations. Details of the number of employees who received remuneration of £50,000 or more based on 2017/18 payroll information, expressed in bands of £5,000 is as follows:

2016/17			2017/18	
Officers Total	Teachers Total		Officers Total	Teachers Total
33	29	£50,000 - £54,999	46	17
15	13	£55,000 - £59,999	18	10
16	18	£60,000 - £64,999	18	13
5	10	£65,000 - £69,999	1	8
6	6	£70,000 - £74,999	2	7
2	3	£75,000 - £79,999	3	1
7	0	£80,000 - £84,999	7	1
1	3	£85,000 - £89,999	2	2
0	0	£90,000 - £94,999	1	0
1	0	£95,000 - £99,999	0	0
0	0	£100,000 - £104,999	0	0
0	0	£105,000 - £109,999	0	0
0	0	£110000 to £114999	0	0
0	0	£115000 to £119999	0	0
0	0	£120000 to £124999	1	0

The number of employees whose remuneration was £50,000 or more includes a number of staff, who have been given approval to leave the Council under the terms of its Voluntary Severance arrangements (that is Voluntary Early Retirement, Voluntary Redundancy, Compulsory Redundancy Phased Retirement and Redeployment). In some cases that has resulted in these staff falling into higher banding brackets than would otherwise be the case. In 2017/18, the number of such employees was 2 (2 officers and 0 teachers).

The increase in officers whose remuneration fell between £50,000 - £54,999 has increased by 13, in the main, due to the Council's 1% pay award increasing the top of Band P016 above £50,000.

The above table excludes the senior employees whose remuneration for 2016/17 and 2017/18 are shown in the Strategic Leadership Team note overleaf:

Strategic Leadership Team Remuneration 2016/17

Job Title/Employee	Salary 2016/17 £	Additional Payments 2016/17 £	Compensation & Ex-gratia 2016/17 £	Total remuneration excluding employer pension contributions 2016/17 £	Pension employer contribution 2016/17 £
Strategic Leadership Team (w ho were Members during all or part of the year):					
Sharon Kemp- Chief Executive - Refer to Note (i)	160,000.01	0.00	0.00	160,000.01	20,640.00
Assistant Chief Executive - Refer to Note (ii)	97,970.04	0.00	0.00	97,970.04	12,638.14
Strategic Director of Children and Young Peoples Services - Refer to Note (iii)	146,450.04	0.00	0.00	146,450.04	18,892.06
Strategic Director of Regeneration and Environment - Refer to Note (iv)	106,883.50	0.00	0.00	106,883.50	13,787.97
Interim Strategic Director of Regeneration and Environment - Refer to Note (iv)	46,130.00	0.00	0.00	46,130.00	0.00
Director of Public Health - Refer to Note (v)	85,658.65	12,382.26	0.00	98,040.91	12,374.87
Interim Strategic Director of Adult Care and Housing - Refer to Note (vi)	116,463.56	0.00	0.00	116,463.56	0.00
Strategic Director of Adult Care and Housing - Refer to Note (vi)	77,741.94	0.00	0.00	77,741.94	9,640.92
Director of Legal Services - Refer to Note (vii)	83,547.00	0.00	0.00	83,547.00	10,777.56
Strategic Director of Finance and Customer Services	114,518.04	0.00	0.00	114,518.04	14,772.83
Interim Head of Human Resources - Refer to Note (viii)	96,630.87	0.00	0.00	96,630.87	0.00
Head of Human Resources - Refer to Note (viii)	20,437.57	0.00	0.00	20,437.57	2,636.45
Total	1,152,431.22	12,382.26	0.00	1,164,813.48	116,160.80

Strategic Leadership Team Remuneration 2017/18

Job Title/Employee	Salary 2017/18 £	Additional Payments 2017/18 £	Compensation & Ex-gratia 2017/18 £	Total remuneration excluding employer pension contributions 2017/18 £	Pension employer contribution 2017/18 £
Strategic Leadership Team (w ho were Members during all or part of the year):					
Sharon Kemp - Chief Executive - Refer to Note (i)	161,600.04	0.00	0.00	161,600.04	24,078.41
Assistant Chief Executive - Refer to Note (ii)	98,949.96	0.00	0.00	98,949.96	14,743.54
Strategic Director of Children and Young Peoples Services - Refer to Note (iii)	147,915.00	0.00	0.00	147,915.00	22,039.34
Strategic Director of Regeneration and Environment - Refer to Note (iv)	115,662.96	0.00	0.00	115,662.96	17,233.78
Director of Public Health - Refer to Note (v)	84,381.96	12,526.80	0.00	96,908.76	13,935.48
Strategic Director of Adult Care and Housing - Refer to Note (vi)	121,200.00	0.00	0.00	121,200.00	18,058.80
Strategic Director of Finance & Customer Services - Refer to Note (vii)	115,662.96	0.00	0.00	115,662.96	17,233.78
Director of Legal Services - Refer to Note (viii)	84,381.96	0.00	0.00	84,381.96	12,572.91
Head of Human Resources - Refer to Note (ix)	84,381.96	0.00	0.00	84,381.96	12,572.91
Interim Head of Communications and Marketing - Refer to Note (x)	43,361.99	0.00	0.00	43,361.99	0.00
Head of Communications and Marketing - Refer to Note (x)	13,580.63	0.00	0.00	13,580.63	2,023.51
Assistant Director - Financial Services - Refer to Note (xi)	73,834.22	0.00	0.00	73,834.22	11,001.30
Total	1,144,913.64	12,526.80	0.00	1,157,440.44	165,493.76

The disclosure for Senior Officers Remuneration includes Senior Officers who are a Member of the Senior Leadership Team and in Statutory and Non-Statutory Chief Officers roles and any other officer whose salary details are required to be disclosed by the Accounts and Audit Regulations 2015, including any other employees whose salary exceeds £150,000.

Notes:

- (i) Sharon Kemp commenced her employment as the Chief Executive on 18 January 2016.
- (ii) The Assistant Chief Executive commenced their employment on 1 March 2016.
- (iii) The Interim Strategic Director of Children and Young People's Services was appointed to the substantive role of the Strategic Director of Children and Young People's Services with effect from 26 November 2015.
- (iv) The Strategic Director of Regeneration and Environment commenced their employment on 25 April 2016.
- (v) The Director of Public Health commenced their employment on 29 June 2015. The additional payments made to the Director of Public Health represent various allowances to which they are contractually entitled to.

- (vi) The Strategic Director of Adult Care and Housing commenced their employment on 8 August 2016.
- (vii) The Strategic Director of Finance and Customer Services commenced their employment on the 1 April 2016.
- (viii) The Director of Legal Services commenced their employment on 7 March 2016.
- (ix) The Head of Human Resources commenced their employment on 3 January 2017
- (x) The Interim Head of Communications and Marketing left the Council on 4th January 2018. The new Head of Communications and Marketing commenced their employment on 2nd January 2018.
- (xi) The Assistant Director of Financial Services became a member of the Strategic Leadership Team on 15th May 2018.

The LGPS Employer Pension contributions disclosed in 2016/17 and 2017/18 are based on the common rate of contribution set by the Actuary of 12.9 percent and 14.9 percent respectively. Also contained in the disclosure is the Director of Public Health Employer Pension contributions that are based on the common rate of contribution set by the NHS Actuary of 14.38 percent (including a 0.08 per cent administration levy)

Senior Leadership Team remuneration costs for 2017/18 have decreased by £7,373.05 compared to 2016/17. Interim agency staff have been replaced by permanent members of staff.

Commissioners

A team 5 of Commissioners was originally appointed by the Secretary of State for Communities and Local Government on 26 February 2015 to take over responsibility for discharging the Executive and Licensing functions of the Council. Following the appointment of a substantive Chief Executive, the number of Commissioners reduced to 4 in May 2016/17. These 4 Commissioners remained in post throughout 2016/17, until 31 March 2017 when Sir Derek Myers left the Council following the return of additional powers to the Council. The role of the Commissioners is to perform certain functions and oversee actions which the Council is to perform, but they are not employees of the Council. They are instead accountable to the Secretary of State. The team comprises:

Mary Ney (Lead Commissioner)

Patricia Bradwell (Children's Social Care Commissioner)

Julie Kenny CBE (Supporting Commissioner)

The Commissioners are nominated for the period beginning on 26 February 2015 and ending on 31 March 2019 or such earlier time as the Secretary of State for Communities and Local Government determines.

The fees payable by the Council to the Commissioners for discharging their duties has been determined by the Secretary of State for Communities and Local Government. The agreed fees are £800 a day for the Lead Commissioner and £700 a day for other Commissioners.

The Commissioners were paid fees of £73,200 (2016/17 £164,200) for services rendered for the period 1 April 2017 to 31 March 2018. Business expenses of £5,043.91 (2016/17 £15,766) were incurred by the Commissioners over the same period in carrying out these services. Employer's national insurance contributions on these fees and expenses are being met by the Council.

- (xi) Further disclosure for exit packages

In order to bring about a structured approach to reducing staff numbers to achieve necessary budget savings, the Council has continued to operate a voluntary severance scheme during 2017/18. The table below shows the cost to the Authority of staff who have left under the voluntary scheme, together with other departures and those who have been made compulsorily redundant. These costs include, where appropriate, the full pension strain cost arising from early retirement, for which the Council is required to make an additional payment to the Pensions Authority. Since 2016/17 the

Council has met this additional cost in full in the financial year that the employee's departure is accounted for, prior to this the Council, with the agreement of the South Yorkshire Pensions Authority, spread the cost over 3 financial years, the final instalment in respect of 2015/16 £0.727m was paid in 2017/18 (2016/17 £0.727m), however residual payments of £0.180m are outstanding at 31st March 2018.

The costs tabulated below are comprised of actual severance payments made during the year less accrued severance payments in respect of individuals who left or were approved to leave during 2016/17 but who were paid in 2017/18 and those staff who's severance was approved and agreed and to which the Council was committed at 31 March 2018 but who are planned to leave in 2018/19.

In 2017/18 no provision was made in respect of severance costs associated with the major restructuring of services (in 2016/17 the provision was £0.1m)

These changes are reflected in the total cost of termination benefits shown in Note (xi) below.

Exit package cost band (including special payments)	Number of compulsory redundancies		Total number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17 £000	2017/18 £000
Non Schools								
£0 - £20,000	43	11	94	52	137	63	798	373
£20,001 - £40,000	16	2	16	4	32	6	815	181
£40,001 - £60,000	2	1	2	0	4	1	190	55
£60,001 - £80,000	2	2	1	0	3	2	205	137
£80,001 - £100,000	0	0	0	0	0	0	0	0
£100,001 - £150,000	1	2	0	1	1	3	124	376
£150,001 - £200,000	0	0	0	1	0	1	0	157
Total	64	18	113	58	177	76	2132	1279

Exit package cost band (including special payments)	Number of compulsory redundancies		Total number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17 £000	2017/18 £000
Schools								
£0 - £20,000	10	8	45	26	55	34	335	253
£20,001 - £40,000	0	0	2	0	2	0	47	0
£40,001 - £60,000	0	0	0	0	0	0	0	0
£60,001 - £80,000	0	0	0	0	0	0	0	0
Total	10	8	47	26	57	34	382	253

N.B. The above figures include 6 settlement agreements including a Tribunal payment entered into to terminate the employment relationship with the School/Council.

(xii) Termination Benefits

As part of the rationalisation of Council services during 2017/18, 112 employees (2016/17 234) from across the whole of the Council, including schools, have been given approval to leave the Council with an exit package (including, Compulsory Redundancies, Voluntary Early Retirement, and Voluntary Redundancy etc.).

The liabilities incurred as a result of the early termination of employees both in schools and non-schools in 2017/18 totalled £1.532m (2016/17 £2.514m) - composed of severance payments of £0.881m (2016/17 £1.628m) and £0.651m in pensions strain costs (2016/17 £0.886m).

Note 15 **External Audit Fees**

The Council has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections and to non-audit services provided by the Council's external auditors:

2016/17 £000		2017/18 £000
141	Fees payable to KPMG with regard to external audit services carried out by the appointed auditor	141
29	Fees payable to KPMG for the certification of grant claims and returns.	22
0	Non-audit services	17
170	Total	179

Note 16 **Dedicated Schools Grant**

The council's expenditure on schools is funded primarily by grant monies provided by the Education and Skills Funding Agency, the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance and Early Years (England) Regulations 2017. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2017/18 and the comparative year are as follows:

2016/17				2017/18		
Central Expenditure £000	ISB £000	Total £000		Central Expenditure £000	ISB £000	Total £000
		218,515 (110,021)	Final DSG before Academy recoupment			223,020 (123,142)
		108,494	Less Academy figure recouped			99,878
		24	Total DSG after Academy recoupment			(5,213)
			Brought forward from previous year			
15,977	92,541	108,518	Agreed initial Budgeted Distribution	18,351	76,314	94,665
0	(231)	(231)	In Year Adjustments	0	(213)	(213)
15,977	92,310	108,287	Final Budgeted Distribution	18,351	76,101	94,452
(21,881)	0	(21,881)	Less actual Central expenditure	(28,799)	0	(28,799)
0	(91,619)	(91,619)	Less actual ISB deployed to schools	0	(75,340)	(75,340)
(5,904)	691	(5,213)	Carry forward to next year	(10,448)	761	(9,687)

In Year Adjustments 2017/8:

	£
Early Years Jan 17 Census Adjustment 2016/17 (3&4 year old Universal Funding)	(33)
Early Years Jan 17 Census Adjustment 2016/17 (2 Year old Disadvantaged Funding)	5
Early Years Jan 17 Census Adjustment 2016/17 (Early Years Pupil Premium Grant)	(1)
Estimated Early Years Jan 18 Census Adjustment 2017/18 (3&4 year old Universal Funding)	(317)
Estimated Early Years Jan 18 Census Adjustment 2017/18 (3&4 year old Additional 30 Hour Funding)	286
Estimated Early Years Jan 18 Census Adjustment 2017/18 (2 year old Disadvantaged Funding)	(80)
Estimated Early Years Jan 18 Census Adjustment 2017/18 (Early Years Pupil Premium Grant)	(17)
Estimated Early Years Jan 18 Census Adjustment 2017/18 (Supp.Funding for Maintained Nursery Schools)	(30)
Estimated Early Years Jan 18 Census Adjustment 2017/18 (Disability Access Fund)	(26)
Total Adjustment 2017/18	(213)

Note 17 **Related Party Transactions**

A person or close family member is a related party of the Council if they have the potential to control or significantly influence the Council's operating or financial decisions or are key management personnel. Close family member is more narrowly defined as a child, spouse or domestic partner, and children and dependants of spouses or domestic partners.

Another body is a related party of the Council if it is a subsidiary, associate or joint venture of the Council or otherwise related, or has the ability to control or significantly influence the Council's operating or financial decisions.

The potential to control or significantly influence may come about due to member or management representation on other organisations, central government influence, relationships with other public bodies or assisted organisations to whom financial assistance is provided on terms which enable the Council to direct how the other party's financial and operating policies should be administered and applied. The fact that a voluntary organisation might be economically dependent on the Council does not in itself create a related party relationship.

Disclosure of related party transactions is made when material to either party to the extent that they are not disclosed elsewhere in the accounts.

Joint Ventures and Associates

(i) BDR Property Limited (formerly Arpley Gas Limited)

With effect from 16 March 2008 Arpley Gas Ltd became BDR Property Ltd, a company set up under the Environment Protection Act 1990 by Rotherham, Barnsley and Doncaster Metropolitan Borough Councils and the Waste Recycling Group Ltd. Waste Recycling Group was subsequently acquired by the FCC group in January 2014 with the company's immediate parent being FCC Environment (UK) Limited.

The company was set up for the purpose of carrying out waste disposal work and civic amenity site management. Its principal activity is management of the Thurcroft landfill site. It operates under a management agency agreement with FCC Recycling (UK) Limited.

The share capital of the company is as follows:

Authorised and fully paid up Share Capital	£1.850 million
--	----------------

Council's Shareholding:

- a) For voting purposes – the Company's shares are divided into 'A' shares and 'B' Shares. The 1,998 'A' shares comprise 20% of the total voting shares. One third of these 'A' shares are held by the Council (666 shares costing £6.66). Barnsley and Doncaster Metropolitan Borough

Councils have similar share holdings, so that collectively the Councils hold 20% of the total voting shares. These are non-equity shares.

- b) For dividend purposes – the Council holds 3.5% (63,421 shares) of the company's £1 class 'C' shares – no voting rights are attached to these shares.
- c) For winding up purposes – the Council holds 12,500 £1 deferred shares which is one third of the total. These shares are ranked after the other 3 classes of shares (A, B and C) and payment will only be made should funds remain available for distribution after meeting the entitlements of the other groups of shareholders. No voting rights are attached to these shares.

At the time of publication of this Statement, accounts for the company for the year ending 31 December 2016 were available and the details are as follows:

31 Dec 15 £000		31 Dec 16 £000
5	Turnover	131
(291)	Profit / (Loss) before taxation	67
(291)	Profit / (Loss) after taxation	67
4,619	Net Assets	4,686

On 21 January 2016 the lease of the Thurcroft Landfill site was assigned to BDR property. No contributions to running costs were made by Rotherham MBC to BDR Property Limited during the financial year ended 31 March 2018.

(iii) Groundwork Cresswell, Ashfield and Mansfield Trust

Groundwork Cresswell, Ashfield and Mansfield Trust is a charity and a company limited by guarantee. The members of the company, whose liability is limited to £1, are Amber Valley Borough Council, Ashfield District Council, Bolsover District Council, Derbyshire County Council, Mansfield District Council, Newark and Sherwood District Council, North East Derbyshire District Council, Nottinghamshire County Council, West Lindsay District Council, the Federation of Groundwork Trusts, and Rotherham Metropolitan Borough Council.

The company's principal activities are the promotion of conservation, protection and improvement of the physical and natural environment, to provide facilities in the interests of social welfare and to advance public education.

At the time of publication of this Statement, accounts for the company for the year ending 31 March 2017 were available and the details are as follow:

31 Mar 16 £000		31 Mar 17 £000
2,349	Turnover	1,408
(10)	Surplus for the year	(347)
1,292	Net Assets	946

Rotherham Metropolitan Borough Council's made no contribution to the company during 2017/18 (2016/17 nil).

During the financial year ended 31 March 2018, Creswell Groundwork Trust provided no services to the Council (2016/17 nil) and incurred no charges from the Council (2016/17 nil).

A copy of the accounts of the company may be obtained from Mr TM Witts, Worksop Turbine Innovation Centre Shireoaks Triangle Business Park, Worksop S81 8AP.

(iv) Magna Trust

Magna Trust is a company limited by guarantee. The members of the company are Rotherham MBC, The Stadium Group and Rotherham Chamber of Commerce. Its principal objects are to advance education of science and technology, provide facilities for recreational and other leisure time occupation for the public at large in the interests of social welfare, and, to preserve buildings of historical importance to British industry.

At the time of publication of this Statement, accounts for the company for the year ending 29 March 2017 were available and the details are as follows:

29 Mar 16 £000		29 Mar 17 £000
2,027	Turnover	1,773
(961)	(Deficit) for the year	(996)
11,252	Net Assets	10,256

During the financial year ended 31 March 2018, the company provided services to the Council to the value of £61,375.54 (2016/17 £70,642.11). Magna incurred charges from the Council of £256 (2016/17 £1,988).

A loan for £300,000 was issued to the Magna Trust in 2006/07 and of this £190,000 was still outstanding as at 31 March 2018. The Council issued to Magna a short term loan of £250,000 during 2014/15. This was outstanding as at the 31 March 2018.

The Council are currently in discussions with Magna regarding repayment of the outstanding balances.

The Council meeting of 9 December 2015 confirmed the decision made by Commissioner Manzie of 30 November 2015 to negotiate an agreed repayment plan with Magna on the 2 Council Loans. This followed external assessment by PwC of Magna's business plan. The Council and Magna are in the process of agreeing a new combined loan agreement, covering both loans.

A copy of the accounts can be obtained from Mr J Smith, Magna, Sheffield Road, Templeborough, Rotherham, S60 1DX.

Other

The following table discloses material transactions between the Council and other related parties.

2016/17 £	Related Parties	Nature of Transactions	2017/18 £
	Assisted Organisations:		
24,151	Dinnington Resource Centre	Fees	36,156
82,890	Full Life Christian Centre	Grants & Fees	50,417
13,437	Get Sorted Academy of Music	Fees	6,333
72,378	Rotherham Advocacy Partnerships	Grants and Fees	53,838
35,616	Rotherham Ethnic Minority Alliance Ltd	Fees	91,203
19,054	Tassibee Project	Grants, Fees and Charges	6,741
6,489	United Multicultural Centre Ltd	Fees	7,285
	Member Related:		
139,700	Rotherham and Barnsley Mind	Grants and Fees	9,860
545,010	Rotherham RISE	Fees	293,119
91,208	Swinton Lock Activity Centre	Grants and Fees	15,243
274,192	Voluntary Action Rotherham	Grants and Fees	293,924
19,559	Turner Hire & Sales Ltd	Fees and Charges	14,778
	Commissioner Related:		
116,043	Maltby Learning Trust	Fees and Charges	60,314
	Officer Related Organisations:		
95,730	GROW	Grants and Fees	65,612
29,698	Kiveton Park Independent Advice	Grants and Fees	29,698
248,560	Morthyng Group Ltd	Fees and Charges	284,164
	Other Related Organisations:		
11,521,000	Sheffield City Region Combined Authority	Transport Levy	10,905,000
237,006	Sheffield City Region Combined Authority	Contribution	309,460

Note 18 Pensions

The Council participates in three separate pension schemes relating to: Teachers, Local Government employees and staff performing Public Health Functions who transferred to the Council on 1 April 2016. All three schemes require contributions from both the employer and the employee, and provide members with benefits calculated by reference to pay levels and length of service.

(a) Teachers

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by the Teachers' Pension Agency (TPA). It provides teachers with defined benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries. Scheme benefits are underwritten by the Government. Since April 2015 the Teacher's Pension Scheme has been a career average scheme rather than a final salary scheme with a normal retirement age the same as that for the state pension.

Although the scheme is unfunded, the TPA uses a notional fund as the basis for calculating the employer's contribution rate paid by Local Education Authorities (LEAs). However it is not possible for the Council to identify a share of the underlying liabilities in the scheme attributable to its own employees. For the purposes of this Statement of Accounts it is therefore accounted for on the same basis as a defined contribution scheme.

During 2017/18 the Council paid employer's contributions calculated at 16.48%, amounting in total to £5.336m (2016/17 £6.518m). Contributions have reduced due to a number of schools converting to academies during 2017/18. The total of contributions expected to be made to the Teachers' Pension Scheme by the Council in the year to 31 March 2019 is £3.5m.

The Government Actuary's Department (GAD) carried out an actuarial valuation of the scheme as at 31 March 2012. It showed there to be an overall deficit against the notional fund of £15bn compared to a deficit of £1.8bn at the time of the last actuarial valuation at 31 March 2004.

The GAD has determined that the employers' contribution over the 4 years commencing 2015/16 should be 16.48%. The rate of 16.48% comprises 5.6% to recover the projected deficit at 31 March 2015 over a 15 year period and 10.8% to meet the ongoing benefits accrued by members under the new scheme from 1 April 2015 onwards and 0.08% administration. This has been capped at 10.9% over the years commencing 2015/16. Members will be expected to pay an average contribution of 9.6%. The current employer contribution rate will be payable until the outcome of the next valuation is implemented, which is expected to be April 2019.

(b) Public Health Staff

Under the provisions of the Health and Social Care Act 2012, Public Health functions and the staff performing these duties were transferred from the National Health Service to Local Authorities on 1 April 2013. The majority of staff transferring have the eligibility to continue membership of the National Health Service Pension Scheme (NHSPS).

The NHSPS is an unfunded scheme operated on a "pay as you go" basis which provides defined benefits to its members. The NHS Business service (NHSBS) which administers the scheme uses a notional fund as a basis for calculating the employer's contribution rate paid by Local Authorities. However, it is not possible for the Council to identify its share of the underlying assets and liabilities relating to the scheme and it is therefore accounted for as if it were a defined contribution scheme with the amount charged to revenue being the employer contributions payable in the year. Employee contributions in 2017/18 are tiered from 5% to 14.5% based on salary.

During 2017/18 the Council paid employer's contributions calculated at 14.3% amounting in total to £0.086m (£0.116m 2016/17).

A new NHS Pension Scheme came into effect in April 2015, the main features of the new scheme are that it is a career average scheme rather than a final salary scheme and the normal retirement age is now the same as that for the State Pension.

An actuarial valuation of the NHS Pension Scheme was carried out as at 31 March 2012 to replace the previous actuarial valuation at 31 March 2004. The primary purpose of the 2012 actuarial valuation was to set the employer contribution rate payable from April 2015 under the new NHS Pension scheme. This determined that employee contribution rates continue to be tiered from 5% to 14.5% based on salary over the 4 years commencing 2015/16 and employer contributions at 14.3% over the same period.

In March 2017 the Department of Health announced that a levy of 0.08% on employers would be introduced to pay for the administration of the NHS Pension scheme meaning that employers would pay 14.38% of pensionable pay – in light of this the total contributions expected to be made to the new NHS Pension Scheme by the Council in the year to 31 March 2019 is £0.058m.

(c) Other Local Government Employees

As part of the terms and conditions of employment of its officers and other employees, the Council offers retirement benefits through its participation in the Local Government Pension Scheme, administered by the South Yorkshire Pensions Authority. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments and this needs to be disclosed at the time that employees earn their future entitlement.

The Council is able to identify a share of the underlying liabilities in the scheme attributable to its own employees and accordingly accounts for post-employment benefits as a defined benefit scheme in accordance with the requirements of IAS19. Consequently, the Council recognises the cost of retirement benefits in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge the Council is required to make against Council Tax is based on the cash payable in the year, so the IAS 19 cost of retirement benefits is reversed out through the Movement in Reserves Statement and replaced by the actual contributions payable in the year. The IAS 19 figures provided by the actuary in respect of 2017/18 make allowance for the reduction in liabilities falling on the Council as a result of schools acquiring academy status during the year which are shown as gains / losses on settlements.

During the year the Council paid employer's superannuation contributions calculated at 14.9% amounting to £16.529m (2016/17 £14.759m at 12.9%) and made a prepayment of £21.802m in relation to past service deficit for the 3 years 2017/18, 2018/19 and 2019/20 of which £7.272m relates to 2017/18.

Total ongoing contributions of £16.1m are expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2019 based on an ongoing service contribution rate of 14.9%.

The contribution rates take account of changes to the Local Government Pensions Scheme which came into effect from April 2014. The main changes were the introduction of a career average scheme rather than a final salary scheme and a "50:50 Scheme Option" whereby members can elect to accrue 50% of the full scheme benefits and pay 50% of the normal member contribution for a period of up to 3 years.

They also reflect the most recent triennial actuarial valuation in March 2016 which the South Yorkshire Pensions Authority, on behalf of its member Authorities, commissioned from the actuary, Mercer Human Resource Consulting Ltd. This showed an improvement in the fund's position with the Council's share of the Fund deficit on the scheme reducing from £181 million at the previous actuarial valuation in 2013 to £129 million in March 2016 (with the funding level improving from 82% to 88% of scheme liabilities).

The funding plan, in accordance with the Funding Strategy Statement (FSS), is to make good the shortfall and achieve a funding level of 100% by 31 March 2036. In order to make good the funding deficit the Council has made and will continue to make contributions towards recovering Rotherham's share of the deficit on the pensions fund. The deficit recovery contribution in 2017/18 was £7.3m which was included in the lump sum prepayment of £21.8m paid April 2017 and covering the 3 financial years 2017/18 to 2019/20.

The funding level of the Pensions Fund is subject to a range of potentially material risks. The impact of small changes to key assumptions (inflation, pay awards, life expectancy, discounting of future pension liabilities) is set out in the sensitivity analysis later in this note. In assessing the potential level of liabilities the funds actuary has estimated the weighted average maturity profile of the defined benefit obligation to be 19 years.

The Pensions Authority invests the funds held by the scheme with the aim of achieving a return on these funds to pay the benefits due. If actual investment returns do not in future match the assumptions then the value of the assets will be lower and a funding shortfall could arise. To address this South Yorkshire Pensions Authority has processes in place to monitor investment performance and the actuaries produce an annual review of the fund's performance including a comparison to other local Council funds. The Pension Fund's investment strategy is reviewed alongside each triennial valuation.

In the event that an employer is unable to pay contributions or make good deficits, the Pension Authority's focus is to ensure as far as possible that any liability can be recovered should an employer exit the Pension Fund. Where a Council acts as guarantor for an employer that defaults the Council is responsible for meeting the liability, otherwise it falls on all employers in the Fund in relation to their size. Rotherham Council does not act as guarantor for other employers. Council contractors with access to the LGPS are required to have bonds in place (which are subject to regular review) to cover unpaid liabilities should their business fail before the end of their contract with the Council. In addition, contractors' contributions are subject to smoothing arrangements which are intended to ensure that they are fully funded by the end of the contract period.

An exception to this is regulation 64 of the Local Government Pensions Regulations which require, in some circumstances, that the Council makes Exit Payments in respect of employers leaving the Fund.

Further information in relation to the Local Government Superannuation Scheme can be found in the South Yorkshire Pension Fund Annual Report which is available upon request from the Superannuation Manager, South Yorkshire Joint Secretariat, Regent Street, Barnsley

Transactions relating to Post-employment Benefits

The amounts included in the Comprehensive Income and Expenditure statement in relation to post retirement benefit costs under IAS 19 are shown in the table below. It also shows the adjustment made through the Movement in Reserves Statement to bring the amount charged to the General Fund back to the employer contributions payable to the LGPS during the year.

Total Funded & Unfunded Local Government Pension Scheme 2016/17 £000	Unfunded Discretionary Benefits Arrangements (included in Total) 2016/17 £000		Total Funded & Unfunded Local Government Pension Scheme 2017/18 £000	Unfunded Discretionary Benefits Arrangements (included in Total) 2017/18 £000
		Net Cost of Services		
(25,315)	0	- Current Service Cost	(36,008)	0
(1,206)	0	- Past Service	(944)	0
17,897	0	- Gain / (loss) from settlements	9,185	0
(11,442)	(730)	Financing and Investment Income and Expenditure		
		- Net Interest Expense	(11,004)	(572)
(20,066)	(730)	Total Post-employment Benefits charged to the Surplus or Deficit on the Provisions of Service	(38,771)	(572)
		Other Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement		
		Remeasurement of the net defined benefit liability comprising:		
20,433	(64)	- Experience gain / (loss) on liabilities	0	0
163,661	0	- Return on plan assets (excluding the amount included in the net interest expense)	15,285	0
10,153	98	- Actuarial gains and (losses) arising on changes in demographic assumptions	0	0
(337,125)	(3,211)	- Actuarial gains and (losses) arising on changes to financial assumptions	78,327	242
(142,878)	(3,177)	Total Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement	93,612	242
		Movement in Reserves Statement		
(6,195)	(619)	- Reversal of net charges made to the Surplus or Deficit on the Provision of Services for Post-employment benefits in accordance with the code	12,983	(749)
		Actual amount charged against General Fund:		
		Balance for pensions in year:		
(26,261)	0	- Employer's contributions payable to Scheme	(25,788)	0
0	(1,349)	- Rechargeable Pensions	0	(1,321)

The unfunded liabilities represent Compensatory Added Years' benefits which are not a liability of the LGPS and are therefore recharged to the employer. They have been included in the liabilities figure for the purpose of IAS 19 calculations, as unfunded discretionary benefits arrangements.

Net interest expense above includes £0.443m Administrative expenses in relation to investments during 2017/18 (2016/17 £0.461m).

In addition to the recognised gains and losses included in the CIES in arriving at the surplus / deficit on services, actuarial gain of £93.612m (£142.878m loss in 2016/17), has been included in other comprehensive income and expenditure in the CIES.

Pension Assets and Liabilities recognised on the Balance Sheet

The amount included in the balance sheet from the Council's obligation in respect of its defined benefit plans is as follows:

	Total Funded & Unfunded Local Government Pension Scheme 31 Mar 17 £000	Total Funded & Unfunded Local Government Pension Scheme 31 Mar 18 £000
Fair Value of Scheme Assets	1,103,208	1,151,589
Present value of Funded Liabilities	(1,546,418)	(1,500,630)
Net (under) funding in Funded Plans	(443,210)	(349,041)
Present Value of Unfunded Discretionary Liabilities	(23,504)	(22,513)
Per Mercers Report	(466,714)	(371,554)
<u>Amount in the Balance sheet:</u>		
Liabilities - funded and unfunded	(1,569,922)	(1,523,143)
Assets - funded and unfunded	1,103,208	1,151,589
Add back Employer Contributions Prepayment for 2016/17	0	(14,531)
Pensions Reserve	(466,714)	(386,085)
Pensions Liability	(466,714)	(371,554)

Reconciliation of the Movements in the Fair Value of Scheme (Plan) Assets

Total Funded & Unfunded Local Government Pension Scheme 2016/17 £000	Unfunded Discretionary Benefits Arrangements (included in Total) 2016/17 £000		Total Funded & Unfunded Local Government Pension Scheme 2017/18 £000	Unfunded Discretionary Benefits Arrangements (included in Total) 2017/18 £000
927,244	0	Fair Value of Plan Assets at beginning of period	1,103,208	0
33,045	0	Interest on plan assets	28,123	0
		Remeasurement gain / (loss):		
163,661	0	- The return on plan assets, excluding the amount included in interest expense	15,285	0
(461)	0	- Administrative expenses	(443)	0
(7,245)	0	- Settlements	(3,525)	0
16,522	1,349	- Employer contributions	25,788	1,321
0	0	- Prepayment Employer Contributions for 2018/19 & 19/20	14,531	0
7,261	0	- Member contributions	7,120	0
(36,819)	(1,349)	- Benefits/transfers paid	(38,498)	(1,321)
1,103,208	0	Fair Value of Scheme Assets at end of period	1,151,589	0

Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation)

Total Funded & Unfunded Local Government Pension Scheme 2016/17 £000	Unfunded Discretionary Benefits Arrangements (included in Total) 2016/17 £000		Total Funded & Unfunded Local Government Pension Scheme 2017/18 £000	Unfunded Discretionary Benefits Arrangements (included in Total) 2017/18 £000
(1,247,536)	(20,946)	Benefit Obligation at beginning of period	(1,569,922)	(23,504)
(25,315)	0	Current Service Cost	(36,008)	0
(44,026)	(730)	Interest Cost	(38,684)	(572)
(7,261)	0	Member Contributions	(7,120)	0
		Remeasurement gains and (losses):		
20,433	(64)	- Experience gain / (loss)	0	0
10,153	98	- Actuarial Gain / (loss) arising from changes in demographic assumptions	0	0
(337,125)	(3,211)	- Actuarial Gain / (loss) arising from changes in financial assumptions	78,327	242
(46)	0	- Past Service Cost	0	0
(1,160)	0	- (Loss) / gain on Curtailments	(944)	0
25,142	0	- Liabilities extinguished on Settlements	12,710	0
36,819	1,349	- Benefits/Transfers paid	38,498	1,321
(1,569,922)	(23,504)	Benefit Obligation at end of period	(1,523,143)	(22,513)

Analysis of the Fair Value of Plan Assets:

	Quoted (Y/N)	Total Funded & Unfunded Local Government Pension Scheme 31 Mar 17 £000	Total Funded & Unfunded Local Government Pension Scheme 31 Mar 18 £000
Cash & cash equivalents:		17,431	55,737
Equity Investments:			
- UK quoted	Y	197,585	171,242
- Overseas quoted	Y	474,931	472,151
Bonds:			
- UK Government fixed	Y	0	0
- UK Government indexed	Y	127,310	130,590
- Overseas Government fixed	Y	30,007	29,711
- Overseas other	Y	19,747	30,517
- UK other	Y	48,872	54,470
Property:			
- UK direct	Y	89,250	91,321
-Property Funds	Y	14,121	13,934
Alternatives:			
- Pooled Investment Vehicles	N	83,954	101,916
		1,103,208	1,151,589

The above asset values are at bid value as required by IAS19.

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis discounted to present value terms using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rate, salary levels, etc. The Council Fund liabilities have been assessed by Mercer Human Resources Ltd, an independent firm of actuaries, estimates for the Council Fund being based on the latest full valuation of the scheme as at 31 March 2018.

The principal assumptions used by the actuary have been:

Local Government Pension Scheme 2016/17	Discretionary Benefits 2016/17		Local Government Pension Scheme 2017/18	Discretionary Benefits 2017/18
22.9 years	22.9 years	Mortality assumptions:	23 years	23 years
25.7 years	25.7 years	Longevity at 65 for current pensioners:	25.8 years	25.8 years
		Men		
		Women		
25.1 years	25.1 years	Longevity at 65 for future pensioners:	25.2 years	25.2 years
28 years	28 years	Men (in 20 years time)	28.1 years	28.1 years
2.3%	2.3%	Women (in 20 years time)	2.1%	2.1%
3.55%	-	Rate of CPI inflation	3.35%	-
2.3%	2.3%	Rate of increase in salaries	2.2%	2.2%
2.6%	2.6%	Rate of increase in pensions	2.6%	2.6%
		Rate for discounting scheme liabilities		

Assets in the South Yorkshire Pension Fund are valued at fair value, which in line with the requirement of the Code is principally realisable or bid value for investments, and consist of the following categories, by proportion of the total assets held by the Fund.

Sensitivity Analysis

Significant actuarial assumptions for the determination of the defined obligation are longevity, rate of inflation, expected salary increase and discount rate. The sensitivity analysis below indicates the effect on the defined benefit obligation of changes to these assumptions.

- If there were to be one year increase in the life expectancy for both men and women, the defined benefit obligation would increase by £29.8m if all other assumptions were held constant.
- If the rate of inflation were to be 0.1% higher, the defined benefit obligation would increase by £27.9m if all other assumptions were held constant.
- If the expected salary growth were to be 0.1% higher, the defined benefit obligation would increase by £4m if all other assumptions were held constant.
- If the discount rate used to discount future pension liabilities were to be 0.1% higher, the defined benefit obligation would decrease by £27m if all other assumptions were held constant.

In reality interrelationships exist between some of these assumptions, especially between discount rate and expected salary increases that both depend to a certain extent on expected inflation rates. The analysis above does not take account of any interdependence between the assumptions.

Note 19 **Property, Plant and Equipment**

2016/17	Council Dwellings £000	Other Land & Buildings £000	Vehicles, Plant & Equipment £000	Infrastructure Assets £000	Community Assets £000	PP&E Under Construction £000	Surplus Assets £000	Total PP&E £000
Cost or Valuation								
At 1 Apr 16	515,883	369,242	57,237	174,306	6,823	17,458	20,014	1,160,963
Additions	23,238	3,309	3,033	9,229	4	7,110	1,974	47,897
Accumulated Depreciation and Impairment written out to gross cost/valuation	(50,918)	(12,943)	0	0	0	0	(43)	(63,904)
Revaluation increases/decreases to Revaluation Reserve	54,788	9,299	0	0	0	0	1,688	65,775
Revaluation increases/decreases to Surplus or Deficit on the Provision of Services	119,100	1,637	0	0	0	0	166	120,903
Derecognition - Disposals	(5,013)	(44,200)	(3,506)	0	(7)	0	(1,625)	(54,351)
Derecognition - Other	0	(393)	(33)	0	0	0	0	(426)
Reclassified to/from Held for Sale	0	0	0	0	0	0	(1,019)	(1,019)
Reclassified to/from Investment Properties	0	0	0	0	0	(220)	(875)	(1,095)
Other Movements in cost valuation as restated	2,873	(110)	0	2,397	1,392	(6,987)	415	(20)
At 31 Mar 17	659,951	325,841	56,731	185,932	8,212	17,361	20,695	1,274,723
Depreciation and Impairment								
At 1 Apr 16	(33,770)	(42,523)	(31,556)	(37,809)	(6,435)	1	(1,513)	(153,605)
Accumulated Depreciation and Impairment written out to gross cost/valuation	50,918	12,943	0	0	0	0	43	63,904
Depreciation Charge	(32,796)	(8,212)	(5,052)	(4,015)	(3)	0	(45)	(50,123)
Impairment losses/reversals to Revaluation Reserve	(3,027)	(1,719)	0	0	0	0	(56)	(4,802)
Impairment losses/reversals to Surplus or Deficit on the Provision of Services	(13,675)	(1,580)	(205)	(541)	(838)	(1)	(1,437)	(18,277)
Derecognition - Disposals	79	2,742	1,101	0	0	0	18	3,940
Derecognition - Other	0	20	8	0	0	0	0	28
Reclassification to / from Held for Sale	0	0	0	0	0	0	12	12
Reclassified to/from Investment Properties	0	0	0	0	0	0	0	0
Other movements in depreciation and impairment - as restated	(18)	18	0	0	0	0	0	0
At 31 Mar 17	(32,289)	(38,311)	(35,704)	(42,365)	(7,277)	0	(2,978)	(158,924)
Net Book Value								
At 31 Mar 17	627,662	287,530	21,027	143,567	935	17,361	17,717	1,115,799
At 31 Mar 16	482,113	326,719	25,682	136,497	387	17,459	18,501	1,007,358

2017/18	Council Dwellings £000	Other Land & Buildings £000	Vehicles, Plant & Equipment £000	Infrastructure Assets £000	Community Assets £000	PP&E Under Construction £000	Surplus Assets £000	Total PP&E £000
Cost or Valuation								
At 1 Apr 17	659,951	325,841	56,731	185,932	8,212	17,361	20,695	1,274,723
Additions	18,880	4,436	2,961	9,467	183	9,643	366	45,937
Accumulated Depreciation and Impairment written out to gross cost/valuation	(33,566)	(8,982)	0	0	0	0	(1,500)	(44,048)
Revaluation increases/decreases to Revaluation Reserve	7,074	30,312	0	0	0	0	679	38,066
Revaluation increases/decreases to Surplus or Deficit on the Provision of Services	1,060	7,294	0	0	0	0	(136)	8,217
Derecognition - Disposals	(6,751)	(44,004)	(3,261)	0	0	0	(865)	(54,880)
Derecognition - Other	0	0	0	0	0	0	0	0
Reclassified to/from Held for Sale	(10)	0	0	0	0	0	49	39
Reclassified to/from Investment Properties	0	0	0	0	0	0	0	0
Other Movements in cost valuation	1,174	279	2,062	4,898	2	(9,097)	(136)	(818)
At 31 Mar 18	647,811	315,178	58,494	200,297	8,397	17,907	19,153	1,267,235
Depreciation and Impairment								
At 1 Apr 17	(32,289)	(38,311)	(35,704)	(42,365)	(7,277)	0	(2,978)	(158,924)
Accumulated Depreciation and Impairment written out to gross cost/valuation	33,566	8,982	0	0	0	0	1,500	44,048
Depreciation Charge	(16,803)	(8,727)	(4,357)	(4,333)	(3)	0	(5)	(34,229)
Impairment losses/reversals to Revaluation Reserve	(3,170)	(1,389)	0	0	0	0	(7)	(4,564)
Impairment losses/reversals to Surplus or Deficit on the Provision of Services	(11,154)	(1,102)	(1,109)	(791)	(185)	(6)	(344)	(14,692)
Derecognition - Disposals	124	2,090	1,458	0	0	0	6	3,678
Derecognition - Other	0	0	0	0	0	0	0	0
Reclassification to / from Held for Sale	0	0	0	0	0	0	0	0
Reclassified to/from Investment Properties	0	0	0	0	0	0	0	0
Other movements in depreciation and impairment	(9)	9	0	0	0	0	0	0
At 31 Mar 18	(29,733)	(38,447)	(39,713)	(47,488)	(7,465)	(6)	(1,829)	(164,683)
Net Book Value								
At 31 Mar 18	618,078	276,731	18,781	152,809	932	17,900	17,324	1,102,552
At 31 Mar 17	627,662	287,530	21,027	143,567	935	17,361	17,717	1,115,799

(a) Carrying Value of PFI Assets

Included within Property, Plant and Equipment are PFI assets with the following carrying value:

2016/17 £000		2017/18 £000
	Cost or Valuation:	
72,887	At 1 April	71,324
(1,802)	Accumulated Depreciation and Impairment written out to gross cost/valuation	(649)
767	Additions	284
(89)	Revaluation Increases / (Decreases) taken to Revaluation Reserve	9,676
(47)	Revaluation Increases / (Decreases) taken to (Surplus) or Deficit on the Provision of Services	546
(392)	Derecognition - Disposals	(23,587)
71,324	Cost or Valuation at 31 March	57,594
	Depreciation & Impairment:	
4,889	At 1 April	5,471
(1,802)	Adjustments between cost / value & depreciation/impairment	(650)
2,073	Depreciation Charge	1,826
0	Depreciation written out on Revaluation Reserve	0
0	Depreciation written out on Revaluation taken to (Surplus) or Deficit on the Provision of Services	0
26	Impairment Losses Recognised in the Revaluation Reserve	87
304	Impairment Losses taken to (Surplus) or Deficit on the Provision of Services	184
(19)	Derecognitions - Disposals	(1,683)
5,471	Depreciation and impairment at 31 March	5,235
	Net Book Value	
65,853	At 31 March	52,359

2016/17 £000		2017/18 £000
62,053	Land and buildings	49,834
3,800	Vehicles, Plant, Furniture and Equipment	2,525
0	Assets under Construction	0
65,853	Total	52,359

b) Effects of change in estimates

There were no material changes in accounting estimates during the financial year.

c) Valuations

Capital assets are revalued on the basis of a five year rolling programme in accordance with RICS Guidance, and in the case of council dwellings in accordance with revised guidance on housing stock valuations. In 2017/18 the assets were revalued by Jonathan R Marriott BSc(Hons), MRICS, Principal Estates Surveyor, acting as Internal Valuer within the Council's Regeneration and Environment Services. The Statement of Accounting Policies provides further information on revaluation and depreciation policies. The table below provides an analysis between the carrying value of assets carried in the balance sheet at historical cost and those carried in the balance sheet at fair value together with, in the case of the latter, when assets were revalued.

d) Revaluations and Impairment

In 2017/18 a net valuation decrease of £7.488m has been recognised in the CIES. Contained within the net figure is £19.298m relating to capital expenditure which did not enhance asset carrying values. This was offset in part by an increase in the value of the Council's school buildings of (£4.623m) and an increase of (£2.671m) on other properties.

	Council Dwellings	Other Land & Buildings	Vehicles, Plant & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Carried at historical cost	2,477	39,385	58,492	200,299	7,004	1,470	17,907	327,033
<u>Valued at fair value as at:</u>								
31 Mar 18	645,335	71,944	0	0	0	15,814	0	733,092
31 Mar 17	0	61,811	0	0	2	1,869	0	63,682
31 Mar 15	0	83,729	0	0	1,390	0	0	85,119
31 Mar 14	0	27,827	0	0	0	0	0	27,827
31 Mar 13	0	30,480	0	0	0	0	0	30,480
Total Cost or Valuation	647,812	315,176	58,492	200,299	8,396	19,153	17,907	1,267,234

e) Capital commitments

At 31 March 2018 the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2017/18. The Council had significant commitments of £1 million or more budgeted to cost £40.505m (£24.508m at 31 March 2017).

	Cost £000
<u>Neighbourhood and Adult Services:</u>	
Refurbishment of Dwellings	17,941
New Build	21,519
<u>Regeneration & Environment</u>	
Street Lighting	1,045
Total	40,505

The projects above are included in the Council's Medium Term Capital Programme and appropriate funding has been committed.

f) Fair Value Hierarchy – Surplus Assets

Following the implementation of IFRS 13, Fair Value Measurement, in 2016/17 the Council's surplus assets were revalued to fair value as at 31 March 2017. The Council uses appropriate valuation techniques for each circumstance and for which sufficient data is available, maximising the use of relevant known data ('observable inputs') and minimising the use of estimates or unknowns ('unobservable inputs').

Details of the Council's Surplus Assets and their fair value hierarchy, taking into account the three levels of categories for inputs to valuations, are as follows:

Recurring fair value measurements using:	Quoted prices in active markets for identical assets Level 1 £000	Other significant observable inputs Level 2 £000	Significant unobservable inputs Level 3 £000	Fair value as at 31 March 2018 £000
Land and Buildings	85	17,241	0	17,326
Total	85	17,241	0	17,326

2016/17 Comparative figures

Recurring fair value measurements using:	Quoted prices in active markets for identical assets Level 1 £000	Other significant observable inputs Level 2 £000	Significant unobservable inputs Level 3 £000	Fair value as at 31 March 2017 £000
Land and Buildings	0	17,718	0	17,718
Total	0	17,718	0	17,718

Transfers between Levels of the Fair Value Hierarchy

There were no transfers between levels during the year.

Valuation Techniques used to determine Fair Values for Surplus Assets

The fair value for the surplus assets of £17.326m (£17.718m as at 31 March 2017) has been based on the market approach using current market evidence including recent sale prices and rentals achieved and other relevant information for similar assets within the local authority area. Market conditions are such that similar properties have actively sold or let and the level of observable inputs are significant leading to properties being categorized at level 2 in the fair value hierarchy.

Note 20 Investment Property

Income and expenditure from investment property included within Financing and Investment Income and Expenditure (Note 5) was as follows:

2016/17 £000		2017/18 £000
(1,501)	Rental income from investment property	(1,528)
485	Direct operating expenses arising from investment property	488
(1,016)	Net income	(1,040)
2,441	Net gains / (loss) from fair value adjustments	2,224
840	Loss on disposal	(15)
2,265	Total included in Finance & Investment Income	1,169

The following table summarised the movement in fair value of investment properties over the year:

2016/17 £000		2017/18 £000
32,152	Balance at 1 April	29,970
5	Subsequent expenditure	107
(840)	Disposals	(25)
(2,441)	Net gains / (loss) from fair value adjustments	(2,224)
0	Net gain / (loss) through Revaluation Reserve	0
1,094	Transfers from Property, Plant & Equipment	0
29,970	Balance 31 March	27,827

There are no restrictions on the Council's ability to realise the value inherent in its investment property or the Council's right to the remittance of income and the proceeds of disposal.

The Council has no major contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancement.

Fair Value Hierarchy

To conform with the requirements of IFRS 13, Fair Value measurement, the Council's investment properties have been revalued to fair value. The Council uses appropriate valuation techniques maximising the use of 'observable inputs' and minimising the use of 'unobservable inputs'. The fair value hierarchy for investment properties takes into account the three levels of categories for inputs to valuations for fair value assets, as follows:

Recurring fair value measurements using:	Quoted prices in active markets for identical assets	Other significant observable inputs	Significant unobservable inputs	Fair value as at 31 March 2018
	Level 1 £000	Level 2 £000	Level 3 £000	£000
Land and Buildings	0	27,827	0	27,827
Total	0	27,827	0	27,827

2016/17 Comparative figures

Recurring fair value measurements using:	Quoted prices in active markets for identical assets	Other significant observable inputs	Significant unobservable inputs	Fair value as at 31 March 2017
	Level 1 £000	Level 2 £000	Level 3 £000	£000
Land and Buildings	0	29,970	0	29,970
Total	0	29,970	0	29,970

Transfers between levels of the Fair Value Hierarchy

There were no transfers between levels during the year.

Valuation techniques used to determine Fair Values for Investment Properties

The fair value of investment property of £27.827m (£29.970m as at 31 March 2017) has been measured using a market approach, which takes into account quoted prices for similar assets in active markets, existing lease terms and rentals, research into market evidence including market rentals and yields, the covenant strength for existing tenants, and data and market knowledge gained in managing the Council's investment property portfolio. The underlying market conditions are such that similar properties are actively purchased and sold with a significant level of observable inputs. This has resulted in the Council's investment properties being categorised as level 2 on the fair value hierarchy.

Highest and Best Use of Investment Properties

In estimating the fair value of the Council's investment properties, the highest and best use of the properties is deemed to be their current use.

Valuation Techniques

There has been no change in the valuation techniques used during the year for investment properties.

Valuation Process for Investment Properties

The investment property portfolio has been valued at 31 March 2018 in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution for Chartered Surveyors. The assets were valued by Jonathan R Marriott BSc(Hons), MRICS, Principal Estates Surveyor, acting as Internal Valuer within the Council's Regeneration and Environment Services.

Note 21 **Intangible Assets**

The Council has purchased software licences that it accounts for as intangible assets, the licences are valued at cost. The Council has no internally generated intangible assets. Most of the software licences have a finite useful life of 3 years during which period they are being amortised using the straight line method.

2016/17 £000		2017/18 £000
	Balance at 1 April:	
5,693	- Gross carrying amount	6,011
(3,135)	- Accumulated amortisation	(3,947)
2,558	Net carrying amount at 1 April	2,064
	Additions:	
298	- Purchases	244
20	- Reclassified from PP&E under Construction	818
(812)	Amortisation	(549)
2,064	Net carrying amount at 31 March	2,577
	Comprising:	
6,011	Gross carrying amounts	7,073
(3,947)	Accumulated amortisation	(4,496)
2,064	Balance at 31 March	2,577

Note 22 **Assets Held for Sale**

	Assets Held for Sale-Current		Assets Held for Sale-Non-current	
	2016/17	2017/18	2016/17	2017/18
	£000	£000	£000	£000
Balance at 1 April	629	1,015	0	0
<u>Assets newly classified as held for sale:</u>				
- Property, Plant and Equipment	1,006	10	0	0
- Revaluation losses	(193)	(402)	0	0
- Revaluation gain	0	134	0	0
<u>Assets declassified as held for sale:</u>				
- Reclassified to Property, Plant and Equipment	0	(49)	0	0
- Assets sold	(427)	(60)	0	0
Balance at 31 March	1,015	649	0	0

Note 23 **Heritage Assets**

Nature and scale of heritage assets held by the Council:

Museum Exhibit

The Museum Exhibit collections hold over 90,000 items. Approximately 10% of these are on display at Clifton Park Museum in Rotherham. The remainder are held in off-site locations within the Borough. Access to the collections can be obtained during the main museum opening times. The collections can be divided into the following main categories:

- a) Social & Industrial History (around 11,000 items) - Contains objects and ephemera illustrating themes of domestic, personal and community life within the Borough from 1660 to the present day.
- b) Archaeology (around 36,000 items) - Includes large collections excavated from the Roman Fort at Templeborough, Roche Abbey and Jesus College (Rotherham).
- c) World Cultures (around 300 items) - Consists of objects originating from Africa, Asia, the Americas and Oceania. In 1981 the collection was transferred on loan to Leeds Museum.
- d) Numismatics & Philately (over 3,000 items) - Includes items dating from the 4th century BC to the 20th century AD.
- e) Fine Art (around 3,000 items) - Consists of oil paintings, water-colours, prints and a good collection of sculpture items.
- f) Decorative Art (around 5,500 items) - Predominated by ceramic items including a large collection from Yorkshire potteries, the most significant being items from the Swinton Pottery/Rockingham Works.
- g) Natural Sciences (over 30,000 items) – Including botanical and geological specimens from Yorkshire and Great Britain.

These assets are carried at valuation, using the insurance valuation as a proxy for market value or the sale of similar items as a basis, with the exception of the addition in 2012/13 which is currently shown at cost. The last valuation for insurance purposes was carried out in 2012/13.

Civic Regalia & Plate

The Council's collection of Civic Regalia includes the Mayor and Mayoress' Chain of Office, the Diamond Pendant, the Mace and the Empire Cup. The chains and pendants are held in a safe in the Town Hall until required for civic ceremonies whilst all other items are kept in display cases and can be seen as part of a tour of the building.

These assets are carried at valuation rather than cost, using the insurance valuation as a proxy for market value. The last valuation for insurance purposes was carried out in 2012/13.

Archives

The Council holds over 900 archive collections in secure, environmentally controlled, strong rooms and a secure, environmentally monitored store at Bailey House. These documents cover the history of the whole of Rotherham Borough from 1328 to the present day. The collection includes local Council materials, maps, plans, title deeds and family records. Access to the documents can be obtained by contacting the Archives and Local Studies Service.

These assets are carried at valuation rather than cost, using the insurance valuation as a proxy for market value. The last valuation for insurance purposes was carried out in 2012/13.

Historic Buildings

Two historic buildings are in the ownership of the Council: Keppel's Column, a 35.5 metre high free standing Tuscan order column listed grade II, and Catcliffe Glassworks Cone a listed grade I conical structure dating from 1740, the earliest surviving example of its type in Western Europe. These buildings are closed to the public on safety grounds.

These assets are carried at valuation rather than cost, both of them being valued on the 1 April 2012 by Jonathan R Marriott BSc(Hons), MRICS, Principal Estates Surveyor, acting as Internal Valuer. Both were regarded as having nil value as they are listed building with restrictions on their disposal, which gives them no commercial value.

Council policies for the acquisition, preservation, management and disposal of heritage assets

The Council's policies are contained in the "Collections Management policy" and the "Acquisition and Disposals policy", both of which are available on request from Heritage Services.

Heritage Assets Values

The table below provides an analysis between the carrying value of assets carried in the balance sheet at historical cost and those carried at fair value.

It is not practicable to present additions for years prior to 2010/11 as detailed information is not available.

	Museum Exhibits held at valuation £000	Civic Regalia & Plate held at valuation £000	Archives held at valuation £000	Total £000
<u>Cost or Valuation</u>				
1 Apr 17	4,948	1,746	258	6,952
Additions	15	0	0	15
Revaluation increases/decreases to Revaluation Reserve	3	0	0	3
31 Mar 18	4,966	1,746	258	6,970
31 Mar 17	4,948	1,746	258	6,952

Disposal of Heritage Assets in 2017/18

There have been no Heritage Asset disposals in 2017/18.

Additions of Heritage Assets in 2017/18

The Council has received a donated asset with a fair value £0.015m during the financial year 2017/18.

Note 24 Financial Instruments – Balances

The borrowings and investments disclosed in the Balance Sheet are made up of the following categories of financial instruments:

	Long Term		Short Term	
	31 Mar 17	31 Mar 18	31 Mar 17	31 Mar 18
	£000	£000	£000	£000
Financial Liabilities (principal amount)	(447,008)	(419,702)	(52,299)	(145,306)
Plus Accrued Interest	0	0	(3,778)	(3,632)
Financial liabilities at amortised cost	(447,008)	(419,702)	(56,077)	(148,938)
Total Borrowings	(447,008)	(419,702)	(56,077)	(148,938)
Loans and receivables (principal amount)	0	0	34	34
Plus(+)/Less(-) Other accounting adjustments	0	0	0	0
Loans and receivables at amortised cost	0	0	34	34
Unquoted equity investments at cost	190	190	0	0
Total Investments	190	190	34	34

No financial instruments have been reclassified during the year. The Council also did not transfer any financial assets which have not been derecognised or retained a continuing involvement in a transferred asset.

Note 25 Financial Instruments – Risk

The Council's activities necessarily expose it to a variety of financial risks. The key risks are:

- Credit risk – the possibility that other parties might fail to pay amounts due to the Council;
- Liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments;
- Re-financing risk – the possibility that the Council might have to renew a financial instrument on maturity at less advantageous interest rates or terms.
- Market risk - the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates movements.

Overall Procedures for Managing Risk

The Council's overall risk management procedures focus on the uncertainties of financial markets, and implementing restrictions to minimise these risks. The procedures for risk management are set out in the Local Government Act 2003 and the associated regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Treasury Management in the Public Services Code of Practice and Investment Guidance issued through the Act. Overall these procedures require the Council to manage risk in the following ways:

- by formally adopting the requirements of the Code of Practice;
- by approving annually in advance prudential indicators for the following three years, limiting:
 - The Council's overall borrowing;
 - Its maximum and minimum exposures to fixed and variable rates;
 - Its maximum and minimum exposures the maturity structure of its debt;
 - Its maximum annual exposures to investments maturing beyond a year.
- by approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with the Government Guidance.

These are required to be reported and approved at the Council's annual Council Tax and Budget setting meeting. These items are reported with the annual treasury management strategy which outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure. Actual performance is also reported semi-annually to Members.

These policies are implemented by a central treasury team. The Council maintains written procedures for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash through Treasury Management Practices (TMPs). These TMPs are a requirement of the Code of Practice and are reviewed regularly.

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers.

This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet minimum credit criteria. The Annual Investment Strategy also considers maximum amounts and time limits in respect of each financial institution. Details of the Investment Strategy can be found on the Council's website.

The following analysis summarises the Council's potential maximum exposure to credit risk, based on experience of default assessed by the ratings agencies and the Council's experience of its customer collection levels, adjusted to reflect current market conditions.

	Amount at	Historical experience of default	Adjustment for market conditions at	Estimated maximum exposure to defaults
	31 Mar 18 £000 (a)	% (b)	31 Mar 18 % (c)	£000 (a*c)
<u>Deposits with banks and financial institutions – excluding Icelandic Banks</u>				
AAA rated counterparties	0	0.000%	0.000%	0
AA rated counterparties	0	0.030%	0.030%	0
A rated counterparties	0	0.080%	0.080%	0
Bonds	0	0.000%	0.000%	0
Total	0			0
<u>Debtors</u>				
Long Term Debtors	3,909	15.902%	15.902%	622
Sundry Debtors	12,082	4.991%	4.991%	603
Housing Tenants	8,166	47.202%	47.202%	3,855
Other Short-Term Debtors	16,349	7.315%	7.315%	1,196
Debtors	40,506			6,275

Except as disclosed later at Note 29 the Council has no exposure to losses from non-performance by any of its counterparties in relation to deposits and bonds.

Whilst the current credit crisis in international markets has raised the overall possibility of default the Council maintains strict credit criteria for investment counterparties. As a result of these high credit criteria, we have maintained historical default rates as a good indicator under these current conditions.

The Council also uses non credit-rated institutions (for instance smaller building societies or bank subsidiaries where the parent has a satisfactory rating). In these circumstances these investments would be classified as other counterparties.

The estimated maximum exposure to defaults of £6.275m represents the Council's provision for bad debts for the Financial Instruments in the table above and form part of the provision for bad debts as disclosed within the Balance Sheet. In calculating these provisions reference is made to historical collection rates and these rates are applied to the debt raised rather than the percentages shown above.

The Council does not generally allow credit for its sundry debtors, such that all of the balance is past its due date for repayment. The past due amount can be analysed as follows:

31 Mar 17 £000		31 Mar 18 £000
11,026	Less than three months	9,185
1,705	Three to six months	381
651	Six months to one year	546
1,799	More than one year	1,970
15,181		12,082

Collateral

The Council initiates a legal charge on property where, for instance, clients require the assistance of social services but cannot afford to pay immediately. The total collateral at 31 March 2018 was £0.837m (£0.845m as at 31 March 2017).

Liquidity Risk

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well through cash flow management procedures required by the Code of Practice. This seeks to ensure that cash is available when it is needed.

The Council has ready access to borrowings from the Money Markets to cover any day to day cash flow need, and the PWLB, which provides access to longer term funds, also acts as a lender of last resort to councils (although it will not provide funding to a council whose actions are unlawful). The Council is also required to provide a balanced Budget by the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

Refinancing and Maturity Risk

The Council maintains a significant debt and investment portfolio. Longer term risk to the Council relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer term financial liabilities and longer term financial assets.

Limits on the maturity structure of debt and the limits on investments placed for longer than one year are the key controls used to address this risk. The treasury team address the operational risks within the Council approved parameters by:

- Monitoring the maturity profile of financial liabilities and amending the profile by either new borrowing or rescheduling existing debt; and
- Monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Council's day to day cash flow needs, and the spread of longer term investments provide stability of maturities and returns in relation to longer term cash flow needs.

The maturity analysis of financial liabilities is as follows:

31 Mar 17 £000		31 Mar 18 £000
56,077	Less than one year	148,938
27,306	Between one and two years	12,313
74,246	Between two and seven years	72,156
27,062	Between seven and fifteen years	17,146
318,394	More than fifteen years	318,086
503,085		568,639

The maturity analysis of financial assets is as follows:

31 Mar 17 £000		31 Mar 18 £000
34	Less than one year	34
0	Between one and two years	0
0	Between two and three years	0
0	More than three years	0
34		34

All Sundry debtors and other payables are due to be paid in less than one year. These Sundry debtors of £12.082m are not shown in the above table, however, an analysis is provided in the 'Credit Risk' section above. Interest accruals are disclosed as less than one year although associated with both short and long-term financial liabilities and assets.

Market Risk

Interest Rate Risk – The Council is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council, depending on how variable and fixed interest rates move across differing financial instrument periods. For instance, a rise in variable and fixed interest rates would have the following effects:

- Borrowings at variable rates – the interest expense charged to the Comprehensive Income and Expenditure Statement will rise;
- Borrowings at fixed rates – the fair value of the borrowing liability will fall (no impact on revenue balances);
- Investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Statement will rise; and
- Investments at fixed rates – the fair value of the assets will fall (no impact on revenue balances).

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together the Council's prudential indicators and its expected treasury operations. It includes a statement about expectations regarding interest rate movements. From this strategy a prudential indicator is set which provides maximum and minimum limits for fixed and variable interest rate exposure. The Council's Treasury Team monitor market and forecast interest rates within the year to adjust exposures appropriately. For instance during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure long term returns.

The risk of interest rate loss is partially mitigated by Government grant payable on financing costs. If all interest rates had been 1% higher (with all other variables held constant) the financial effect would be:

2016/17 £000		2017/18 £000
0	Impact on Surplus or Deficit on the Provision of Services	0
0	Share of overall impact debited to the HRA	0
(150,030)	Decrease in fair value of fixed rate borrowing liabilities (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure)	(147,632)

The approximate impact of a 1% fall in interest rates would be as above but with the movements being reversed. These assumptions are based on the same methodology as used in Note 27 Fair Value of Assets and Liabilities carried at amortised cost.

Price Risk – The Council does not generally invest in equity shares but does have a number of small shareholdings in its related companies. The Council is therefore not exposed to any significant risks

arising from movements in the price of these shares and the shares are not classified as Available-for-Sale.

Foreign Exchange Risk – The Council has no financial assets or liabilities denominated in foreign currencies. It therefore has no exposure to risk arising from movements in exchange rates.

Note 26 Financial Instruments – Gains/Losses

Gains/Losses charged to the Comprehensive Income and Expenditure Statement and the Movement in Reserve Statement for the year to 31 March 2018 are as follows:

2016/17		Financial Liabilities	Financial Assets			2017/18
Total		Liabilities measured at amortised cost	Loans and receivables	Available-for-sale assets	Fair value through the CIES	Total
£000		£000	£000	£000	£000	£000
19,883	Interest expense	19,149	0	0	0	19,149
0	Impairment (gain)	0	0	0	0	0
13,049	Finance Lease Interest	13,093	0	0	0	13,093
32,932	Interest payable and similar Charges	32,242	0	0	0	32,242
(462)	Interest income	0	(254)	0	0	(254)
32,470	Net gain (-) / loss (+) for the year	32,242	(254)	0	0	31,988

Note 27 Financial Instruments – Fair Values

Fair Value of Financial Assets

At 31 March 2018 the Council had no Available for Sale financial assets measured in the Balance Sheet at fair value on a recurring basis (Nil at 31 March 2017). The Authority's equity shareholdings in companies disclosed at Note 17 – Related Party Transactions are not traded in an active market and are valued at historical cost (see below).

There were no transfers between input levels 1 and 2 during the year and there has been no change in the valuation technique used during the year for Available for Sale financial instruments.

Fair Value of Financial Assets and Financial Liabilities not measured at Fair Value

All other financial liabilities and financial assets represented by loans and receivables and long-term debtors and creditors which are not measured at Fair Value but for which a disclosure is required are carried in the Balance Sheet at amortised cost. Their fair value has been assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments (Level 2), using the following assumptions:

- For loans from the Public Works Loans Board (PWLB) redemption rules and prevailing PWLB redemption rates as at each balance sheet date.
- The fair values for non-PWLB debt have also been calculated using the same procedures and interest rates and this provides a sound approximation for fair value for these instruments.
- For loans receivable prevailing benchmark market rates have been used to provide the fair value;
- No early payment or impairment is recognised;
- Where an instrument has a maturity of less than 12 months or is a trade or other receivable the fair value is taken to be the carrying amount, either the principal outstanding or the billed amount.

- Some rights and obligations that would otherwise be financial instruments are excluded from the Creditors and Debtors figures in the two tables below as they are covered by more specific provisions about their recognition, measurement and disclosure elsewhere in the Statement of Accounts e.g. any Statutory debts and payments. This results in different amounts for creditors and debtors being shown in the tables below compared to elsewhere in the Statement of Accounts.

The fair values calculated are as follows:

31 Mar 17			31 Mar 18	
Carrying amount £000	Fair Value £000		Carrying amount £000	Fair Value £000
		<u>Long and Short-term</u>		
227,929	338,421	PWLB debt	205,341	307,455
245,170	473,445	Non-PWLB debt	245,162	472,974
30,000	30,000	Temporary Borrowing	118,000	118,000
503,099	841,866	Total Debt	568,503	898,429
(40,880)	(40,880)	Trade Creditors	(41,619)	(41,619)
462,219	800,986	Total Financial Liabilities	526,884	856,810

The fair value for financial liabilities is greater than the carrying value because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans in the market at the balance sheet date. This shows a notional future loss (based on economic conditions at 31 March 2018) arising from a commitment to pay interest to lenders above current market rates.

The fair value of Public Works Loan Board (PWLB) loans of £307.455m measures the economic effect of the terms agreed with the PWLB compared with estimates of the terms that would be offered for market transactions undertaken at the Balance Sheet date. The difference between the carrying amount and the fair value (£102.114m) measures the additional interest that the Council will pay over the remaining terms of the loans under the agreements with the PWLB, against what would be paid if the loans were at prevailing market rates.

However, the Council has a continuing ability to borrow at concessionary rates from the PWLB rather than from the markets. A supplementary measure of the additional interest that the authority will pay as a result of its PWLB commitments for fixed rate loans is to compare the terms of these loans with the new borrowing rates available from the PWLB. If a value is calculated on this basis, the carrying amount of £205.341m would be valued at £267.335m. But, if the Council was to seek to avoid the projected loss by repaying the loans to the PWLB, the PWLB would raise a penalty charge for early redemption by charging a premium equivalent to the additional interest, based on the redemption interest rates (£102.114m) that would not then be paid. The exit price for the PWLB loans including this charge would therefore be £307.455m.

31 Mar 17			31 Mar 18	
Carrying amount £000	Fair Value £000		Carrying amount £000	Fair Value £000
34	34	Money Market loans less than one year	34	34
190	190	Equity	190	190
4,772	4,772	Long-term Debtors	3,909	3,909
15,181	15,181	Sundry Debtors	12,082	12,082
7,798	7,798	Housing Rents	8,166	8,166
		Other Short-Term :		
16,513	16,513	Debtors	16,349	16,349
(6,171)	(6,171)	Bad Debts Provision	(6,275)	(6,275)
38,317	38,317	Total Loans and Receivables	34,455	34,455

The fair value for financial assets is the same as the carrying value because all are carried at cost as a fair approximation of their value.

Note 28 **Financial Instruments – Soft Loans and Financial Guarantees**

Soft Loans – Loans granted by the Council at below market rates are accounted for on a fair value basis. This is the present value of all future cash receipts discounted using the prevailing market interest rate for a similar instrument for an organisation with a similar credit rating.

Government Regulations permit the removal of this charge through the Movement in Reserves Statement to the Financial Instruments Adjustment Account. The balance is then amortised from this account over the remaining life of the loans. At 31 March 2018 the Council had no material soft loans requiring disclosure within the Balance Sheet.

Financial Guarantees – Under the revised Regulations the Council is required to record in its balance sheet any financial guarantees that it has provided based on the likelihood of the guarantee being called.

The initial recognition of the guarantee is measured at fair value based on the probability of the guarantee being called together with the likely amount payable under the guarantee.

At 31 March 2018 the Council had no material financial guarantees requiring disclosure within the Balance Sheet.

Note 29 **Impairment adjustment – Heritable Bank**

Early in October 2008, the Icelandic bank Landsbanki collapsed and the UK subsidiary of the bank, Heritable, went into administration. The Council had £1.800m deposited in this institution, with a maturity date and interest rate as follows:

Bank	Date invested	Maturity Date	Amount Invested £m	Interest Rate	Carrying Amount £m	Impairment £m
Heritable	24/09/2008	24/10/2008	1.800	5.95%	0.034	(0.002)

The Council has recouped almost all of the original investment (£1.767m / 98.21%) with an outstanding balance as at 31st March 2018 of £32,262. All monies within the institution have been subject to an administration process. The amounts and timing of payments to depositors such as the Council have been determined by the administrators.

The Council's claim under Heritable Bank's cross-guarantee with its former parent Landsbanki Bank was finalised in 2015/16 at a maximum amount of £9k. This is currently held in an interest bearing Escrow account in Iceland, and will be paid on a pro-rata basis to the Council depending on the extent to which the administration of Heritable Bank falls below the 100% recovery level. The Council did not receive anything in 2017/18.

Recognition in the CIES

There has been no impairment gain recognised in the Comprehensive Income and Expenditure Statement in 2017/18 as the remaining anticipated loss of interest to the Council until monies are recovered is now minimal (in 2015/16 it was less than £2,000).

Note 30 **Long-Term Investments**

2016/17 £000		2017/18 £000
	<u>Investments in Associates and Joint Ventures:</u>	
190	Investment in BDR Property Limited (formerly Arpley Gas Ltd)	190
190	Balance at 31 March	190

Note 31 **Inventories**

2016/17 £000		2017/18 £000
747	Balance at 1 April	702
5,304	Purchases	2,328
(5,280)	Recognised in year as an expense	(2,315)
(69)	Written on / (off) in year	(23)
702	Balance at 31 March	692

Note 32 **Construction contracts**

The Council has not recognised any significant contract revenue in respect of construction contracts with third parties during the year, and there are no significant construction contracts in progress at 31 March 2018 (Nil 2016/17).

Note 33 **Debtors**

	Short Term		Long Term	
	2016/17 £000	2017/18 £000	2016/17 £000	2017/18 £000
Central Government Bodies	9,817	10,326	0	0
Other Local Authorities	2,603	4,383	0	0
NHS Bodies	6,028	5,994	0	0
Public corporations and trading funds	0	0	0	0
Other Entities and Individuals	33,131	33,325	4,771	3,909
Total	51,580	54,028	4,771	3,909

Note 34 **Cash and cash equivalents**

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

Cash and cash equivalents as shown in the statement of cash flows can be reconciled to the related items in the Balance Sheet as follows:

31 Mar 17 £000		31 Mar 18 £000
29,129	Cash and Bank balances	28,838
(32,911)	Bank Overdraft	(1,463)
(3,782)	Total Cash and Cash Equivalents	27,375

Note 35 **Creditors**

	Short Term		Long Term	
	2016/17 £000	2017/18 £000	2016/17 £000	2017/18 £000
Central Government Bodies	(6,526)	(7,164)	0	0
Other Local Authorities	(1,368)	(1,387)	0	0
NHS Bodies	(920)	(1,135)	0	0
Public corporations and trading funds	0	0	0	0
Other Entities and Individuals	(54,886)	(51,834)	(28)	(28)
Total	(63,700)	(61,520)	(28)	(28)

Note 36 **Provisions**

Current Year	Balance as at 1 Apr 17 £000	Increase in provision during year £000	Utilised during year £000	Unused Amounts Reversed £000	Balance as at 31 Mar 18 £000
Insurance Claims	(5,265)	(1,256)	1,502	0	(5,019)
Compensation Payments	(1,073)	0	47	128	(898)
Severance Costs	0	0	0	0	0
Business Rates Appeals	(3,226)	(1,091)		0	(4,317)
Other	(391)	0	197	80	(114)
Total	(9,955)	(2,347)	1,746	208	(10,348)
Current Provisions	(4,390)	(1,091)	197	80	(5,204)
Long Term Provisions	(5,565)	(1,256)	1,549	128	(5,144)
Total	(9,955)	(2,347)	1,746	208	(10,348)

Comparative Year	Balance as at 1 Apr 16 £000	Increase in provision during year £000	Utilised during year £000	Unused Amounts £000	Balance as at 31 Mar 17 £000
Insurance Claims	(6,859)	0	1,593	0	(5,266)
Compensation Payments	(893)	0	0	0	(893)
Severance Costs	(175)	0	176	0	1
Business Rates Appeals	(5,081)	0	1,855	0	(3,226)
Other	(1,060)	0	177	312	(571)
Total	(14,068)	0	3,801	312	(9,955)
Current Provisions	(6,541)	0	2,120	30	(4,391)
Long Term Provisions	(7,527)	0	1,681	282	(5,564)
Total	(14,068)	0	3,801	312	(9,955)

Insurance claims

The Council carried out a complete re-tender of its insurance arrangements in 2013, with new policies commencing 28 February 2013. The liability risk is insured by QBE (via RMP) whilst the property risk is insured by Zurich Municipal. The contracts were for three years with a two year optional extension. The two year optional extension was exercised, the first year commencing from 28 February 2016. An additional one year extension covering 2018/19 was renegotiated with both

insurers upon expiry of the original two year option; policies will be completely re-tendered in 2018 with the new policies commencing 28 February 2019.

In balancing the cost of insurance against the risk of a liability arising, the Council has elected to meet the policy excess in respect of certain types of claim (Employers Liability and Public Liability) and to co-insure or self-insure itself against other types of claim by operating an Insurance Fund. Details of the different types of claim covered by this arrangement are set out below.

The Council keeps under review the best estimate of the likely liability falling on the Insurance Fund by reference to recent claims history, repudiation rates and other relevant factors and the expert advice of the Council's legal representatives on larger more complex claims.

The provision in this year's accounts covers the estimated residual liability relating to claims settled by Municipal Mutual Insurance (MMI) which, under the terms of MMI's Scheme of Arrangement, can no longer be met in full and therefore require a proportion to be repaid by the local authorities who were members of MMI when it went into solvent liquidation in 1992. This includes the Council.

The Council continues to liaise with its insurers and legal advisors to ascertain the extent to which the Council's insurance policies can be used to meet liabilities arising from compensation claims that have been brought in relation to child sexual exploitation cases.

(a) Employers Liability and Public Liability

Since the demise of Municipal Mutual Insurance (MMI) in 1992, many authorities have been retaining and funding their liability losses, third party, highways third party and employers' liability, up to an agreed threshold per claim. For several years, this remained static at £100,000, however, with effect from 28 February 2015, the Council now meets the first £250,000 of every settlement. In effect the Insurance Fund meets the majority of settlements determined by the insurers.

(b) Fire

The Fund acts as a co-insurer, up to a stop-loss limit of £350,000 in any one period of insurance.

The Fund bears the first £50,000 of all claims involving education, municipal and housing property.

(c) Motor

All accidental damage to our own vehicles is self-funded. The Fund recoups the cost from user departments/services via an annual charge per vehicle. There is an excess of £500 on all claims (£1,000 for thefts) which is met initially by the Fund and recharged to owning departments. Third party risks remain with the external insurer.

(d) Council Flats – Added Perils

The Fund insures blocks of flats for added perils where one or more flats have been sold under the right to buy arrangements.

(e) ICT Equipment

Where requested, schools ICT equipment is insured on the Fund on an 'All-Risks' basis.

(f) Other Equipment

Where requested, schools' musical instruments, televisual and video equipment, Youth & Community equipment and office equipment are insured on the Fund on an 'All-Risks' basis. In addition schools can insure many other items if desired.

In addition to the above there are many smaller risks which are self-insured including:

Schools PABX Equipment
 'Time on Risk' Cover
 The York and Lancaster Exhibition

Severance Costs

Provision is made for the estimated severance costs associated with reductions in staff numbers arising from the restructuring of services when there are detailed formal plans in place, a valid expectation is raised amongst those staff who are affected that the plans will be implemented, significant changes to the plans are unlikely, and, the costs can be identified. The expectation is that the outstanding liability at 31 March 2018 will be settled in 2018/19.

Rating appeals

Under the business rates retention regulations which came into effect on 1 April 2013, an allowance is made for the amount of business rate income it is estimated will have to be refunded to business ratepayers as a result of appeal. The provision represents the Council's share of the overall estimated liability for refunding business rate payers income recognised up to and including the end of the financial year. We anticipate the majority of refunds provided for at 31 March 2018 will be made during 2018/19 and the provision has therefore been classified as a current provision.

Other

Other provisions comprise commercially or politically sensitive items disclosure of which would prejudice the Council's position.

Note 37 **Usable Reserves**

The Council's usable reserves are summarised in the table below into capital and revenue followed by a brief description of the nature and purpose of each reserve. Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement on Page 6 and Notes 2 and 3.

31 Mar 17 £000		31 Mar 18 £000
	CAPITAL RESERVES	
(27,422)	Capital Receipts Reserve	(28,816)
(5,219)	Major Repairs Reserve	(9,669)
(11,483)	Capital Grants Unapplied Account	(14,346)
	REVENUE RESERVES	
(1,283)	General Fund - Schools	(1,401)
(11,268)	General Fund - Council	(11,269)
(45,900)	Earmarked Reserves excluding DSG	(35,402)
5,213	Earmarked Reserve DSG	9,687
(35,156)	HRA	(37,508)
(132,519)	TOTAL USABLE RESERVES	(128,725)

(a) Capital Receipts Reserve

Income from the disposal of non-current assets is credited to the Capital Receipts Reserve. The amount credited in respect of housing capital receipts is reduced by the amount the Council is required to pay over to central government under the national pooling arrangements. The Capital Receipts Reserve can only be applied to finance new capital expenditure, repay debt or meet liabilities under credit arrangements.

(b) Major Repairs Reserve

The Council is required by regulation to establish a Major Repairs Reserve. The main credit to the account comprises the total depreciation charge for all HRA assets. This can only be used to finance new capital expenditure, repay debt or meet liabilities under credit arrangements. The arrangements ensure that subsequent funding of capital expenditure does not affect the Housing Revenue Account.

(c) Capital Grants Unapplied Account

Where a capital grant or contribution (or part thereof) has been recognised as income in the Comprehensive Income and Expenditure Statement, but the expenditure to be financed from that grant or contribution has not been incurred at the Balance Sheet date, the grant or contribution is transferred to the Capital Grants Unapplied Account within usable reserves reflecting its status as a capital resource available to finance future capital expenditure.

(d) General Fund

The General Fund balance represents uncommitted revenue balances held to safeguard the Council against potential financial risks, unforeseen costs and contingencies. The balance to be held is risk assessed annually as part of the budget setting process to ensure a prudent level of resources is retained.

(e) Earmarked Reserves

Details of the earmarked reserves the Council has set aside to meet specific needs or which are ring-fenced to particular services are contained in Note 3.

(f) Earmarked Reserve DSG

The Dedicated School Grant (DSG) is a ring fenced grant for Schools. There is currently a deficit balance on the Dedicated Schools Grant, which in accordance with Government policy, can be carried forward for the deficit to be addressed in future years. Childrens' and Young Peoples Service have implemented a plan to recover the deficit in later years

(g) HRA

The Housing Revenue Account (HRA) is a record of revenue expenditure and income relating to a Council's housing stock. Its primary purpose is to ensure that expenditure on managing tenancies and maintaining dwellings is balanced by rents charged to tenants. Consequently, the HRA is a statutory account, ring-fenced from the rest of the General Fund, so that rents cannot be subsidised from council tax (or vice versa).

Note 38 Unusable Reserves

The Council's unusable reserves are summarised in the table below into capital and revenue followed by a brief description of the nature and purpose of each reserve and movements thereon during the year.

31 Mar 17 £000		31 Mar 18 £000
	CAPITAL RESERVES	
(224,896)	Capital Adjustment Account	(189,331)
(131,489)	Revaluation Reserve	(144,724)
(98)	Deferred Capital Receipts	(98)
	REVENUE RESERVES	
466,714	Pensions Reserve	386,085
4,485	Short term accumulating absences account	3,838
184	Financial instruments adjustment account	194
(7,420)	Collection Fund adjustment account	(6,099)
107,480	TOTAL UNUSABLE RESERVES	49,865

(a) Capital Adjustment Account

The Capital Adjustment Account absorbs timing differences arising from the different arrangements for accounting for the consumption of non-current assets under normal accounting practices and statutory requirements for financing capital expenditure applicable to local authorities. Hence, it is debited with capital charges (depreciation, impairment, revaluation losses and amortisation) that have been made in the Comprehensive Income and Expenditure statement but which are reversed out as they are not proper charge to revenue for council tax purposes and credited with the amount which is set aside from capital resources or from revenue to finance capital expenditure under the statutory provisions (the accounting policies set out the Council's approach for determining a prudent charge to

revenue for debt repayment and PFI liabilities). The Capital Adjustment Account also contains accumulated gains and losses on investment properties and on Property Plant and Equipment before 1 April 2007, the date on which the Revaluation Reserve was created.

2016/17 £000		2017/18 £000
(173,094)	Balance 1 April	(224,896)
4,709	Debt Repayment	192
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
812	Amortisation of Intangible Assets	549
(83,313)	Charges for depreciation and impairment of non-current assets	25,726
8,292	Revenue expenditure funded from capital under statute	6,423
52,067	Non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	51,287
33,446	Depreciation - Major Repairs Reserve	17,463
(1,424)	Write down of Met Debt deferred Liability	(1,566)
	Adjusting amounts written out to Revaluation Reserve:	
(13,824)	Disposal	(16,059)
(3,592)	Excess of current cost depreciation over historic cost depreciation	(4,210)
	Capital Financing Applied in the year:	
(7,949)	Use of Capital Receipts Reserve to finance capital expenditure	(6,049)
(317)	Use of Capital Receipts Reserve to repay debt	(192)
(18,630)	Use of Major Repairs Reserve to finance capital expenditure	(15,632)
	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing:	
(16,487)	Application of grants to capital financing from the Capital Grants Unapplied Account	(15,325)
(5,551)	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	(5,920)
5,511	MRP holiday	5,920
(5,552)	Capital expenditure charged against the General Fund and HRA balances	(7,042)
(224,896)	TOTAL	(189,331)

(b) Revaluation Reserve

The Revaluation Reserve represents the cumulative unrealised revaluation gains and losses on the Council's Property, Plant and Equipment since the reserve was created on 1 April 2007.

2016/17 £000		2017/18 £000
(87,932)	Balance 1 April	(131,489)
(65,775)	Net revaluation gains/losses not charged to the Surplus /(Deficit) on Provision of Services	(38,069)
4,802	Impairment losses and reversals thereof not charged to the Surplus / (Deficit) on Provision of Services	4,565
(60,973)	Sub total - net revaluation and impairment gains / losses not posted to the Surplus / Deficit on provision of Services	(33,504)
13,824	Accumulated Gains on assets sold or scrapped	16,059
3,592	Excess of fair value depreciation over historic cost depreciation transferred to Capital Adjustment Account	4,210
(131,489)	Balance at 31 March	(144,724)

(c) Deferred Capital Receipts Reserve

The Deferred Capital Receipts Reserve represents amounts due from the sale of non-current assets that have still to be realised. Under statutory arrangements, this only becomes available for financing on receipt of cash at which point a transfer is made to the Capital Receipts Reserve. The balance is mainly represented by mortgages on council houses sold to (former) tenants.

2016/17 £000		2017/18 £000
(98)	Balance 1 April	(98)
(0)	Transfer to the Capital Receipts Reserve of cash received	0
(98)	Balance at 31 March	(98)

(d) Movements in Available for Sale Financial Instruments Reserve

The Available for Sale Financial Instruments Reserve contains the gains made by the Council arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- disposed of and the gains are realised.

At 31 March 2018 the Council held no financial assets classified as available-for-sale.

(e) Pensions Reserve

The Pensions Reserve absorbs timing differences arising from the different arrangements for accounting for post-employment benefits under normal accounting practices and statutory requirements for funding benefits applicable to local authorities. The amount recognised as post-employment benefits under normal accounting practice reflects the benefits accrued by employees from their reckonable service, and changes to the assumptions about the liabilities that will fall on the scheme when benefits are paid out and the value of scheme assets to cover those liabilities. The amount charged under statutory provision is the amount due to be paid over by the Council as employer contributions under local government pension scheme rules.

The Pensions Reserve represents the Council's share of the underlying assets and liabilities for post-employment benefits attributable to the Council at the balance sheet date. The deficit represents the amount by which benefits earned by past and current employees currently exceeds the resources set aside by the Council to meet them.

Further details of the Council's participation in the Local Government Pension Scheme (administered by South Yorkshire Pensions Authority) are detailed in Note 18.

2016/17 £000		2017/18 £000
330,031	Balance 1 April	466,714
142,878	Remeasurements of the net defined benefit liability/(asset)	(93,612)
20,066	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	38,771
(26,261)	Employer's pensions contributions and direct payments to pensioners payable in the year	(25,788)
466,714	Balance 31 March	386,085

(f) Short-term Accumulated Absences Account

The Accumulating Absences Accounts absorbs the timing differences arising from the different arrangements for accounting for short term compensated absences under normal accounting practices and statutory requirements for charging such absences applicable to local authorities. Under normal accounting practice, an accrual is made to charge compensated absences, for example, annual leave entitlement not yet paid, in the year in which they are earned. However, under statutory provision, these are charged to revenue in the year in which they are payable. The balance on the Accumulating Absences Account therefore represents the amount of compensated absences earned which will fall as a charge on the General Fund in the future.

2016/17			2017/18	
£000	£000		£000	£000
	3,242	Balance 1 April		4,485
(3,242)		Settlement or cancellation of accrual made at the end of the preceding year	(4,485)	
4,485		Amounts accrued at the end of the current year	3,838	
		Net amount charged to Comprehensive Income and Expenditure Statement in the year reversed out under regulation chargeable to revenue in the future when payments fall due		(647)
	1,243			
	4,485	Balance at 31 March		3,838

(g) Financial Instruments Adjustment Account

This reserve has been created to hold the accumulated difference between the financing costs included in the Income and Expenditure Account and the accumulated financing costs required in accordance with Regulations to be charged to the General Fund Balance.

General Transactions

The Code requires that unless directly attributable to a loan held at 31 March 2007 then all premium and discounts carried on the Balance Sheet at that date are to be written off to the General Fund Balance as at 1 April 2007. Government Regulations allow for the impact to be neutralised through a transfer to the Financial Instruments Adjustment Account. The balance of premium and discounts will be amortised to revenue in line with the provisions set down in the Council's accounting policies.

The Code also requires that where the Council has provided loans at less than market rates then these should be accounted for on a fair value basis. The difference between the fair value and loan amount is accounted for as an immediate charge to the Income and Expenditure Account. Government Regulations allow for the impact to be neutralised through a transfer to the Financial Instruments Adjustment Account. The fair value increases over the period of the loan and the annual impact will be neutralised in the Income and Expenditure Account by the writing down of the balance on the Financial Instruments Adjustment Account.

2016/17 £000		2017/18 £000
95	Balance at 1 April	184
	Movement in year:	
89	Premium and discounts	10
0	Soft Loans	0
184	Balance carried forward at 31 March	194

(h) Collection Fund Adjustment Account

The Collection Fund Adjustment Account absorbs differences between the amount of council tax income recognised under normal accounting practice as it falls due from council tax payers and the amount due to the General Fund and preceptors under statutory provisions. The balance on the Collection Fund Adjustment Account therefore represents the amount still to be distributed to the General Fund and precepting authorities.

2016/17 CTAX £000	2016/17 NNDR £000	2016/17 Total £000		2017/18 CTAX £000	2017/18 NNDR £000	2017/18 Total £000
(7,045)	887	(6,158)	Balance 1 April	(5,898)	(1,522)	(7,420)
1,147	(2,409)	(1,262)	Difference between amount receivable in the Comprehensive Income and Expenditure Statement for the year and General Fund	390	931	1,321
(5,898)	(1,522)	(7,420)	Balance at 31 March	(5,508)	(591)	(6,099)

Note 39 **Cash Flow – Analysis of adjustments to (Surplus) / Deficit on the Provisions of Service**

2016/17 £000		2017/18 £000
17,365	Items included in the net surplus or deficit on the provision of services that are investing and financing activities:	18,188
0	Capital Grants credited to surplus or deficit on the provision of services	0
7,722	Net adjustment from sale of long term investments	9,363
25,087	Proceeds from the sale of property plant and equipment, investment property and intangible assets	27,551
(466)	Interest received (cash basis)	(325)
33,265	Interest paid (cash basis)	32,449

Note 40 **Cash Flow – from Investing Activities**

2016/17 £000		2017/18 £000
47,343	Purchase of property, plant and equipment, investment property and intangible assets	49,664
0	Long term loans granted	0
0	Purchase of short term investments	0
0	Purchase of Long term investments	0
232	Capital Grants and Contributions Repaid	45
(7,722)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(9,174)
(17,703)	Capital Grants and Contributions Received	(15,956)
(4,773)	Other receipts from investing activities	(384)
17,377	Net cash outflow from Investing Activities	24,195

Note 41 **Cash Flow – from Financing Activities**

2016/17 £000		2017/18 £000
(108,199)	Cash receipts of short- and long-term borrow ing	(211,000)
231	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	249
85,491	Repayments of short- and long-term borrow ing	145,299
465	Other payments for financing activities	5,072
(22,012)	Net cash outflow from Financing Activities	(60,380)

Note 42 **Capital Expenditure and Financing**

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and PFI contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed in the second part of this note.

2016/17 £000		2017/18 £000
787,248	Opening Capital Financing Requirement Capital Investment	792,538
47,897	Property, Plant and Equipment	45,937
5	Investment Properties	107
298	Intangible Assets	244
0	Heritage Asset	0
8,292	Revenue Expenditure funded from Capital under Statute	6,417
843,740		845,243
	Sources of finance:	
(7,949)	Capital receipts to finance new capital expenditure	(6,049)
(16,487)	Government grants and other contributions	(15,325)
(18,630)	Major Repairs Allow ance	(15,632)
	Sums set aside from revenue	
	Direct revenue contributions:	
(87)	General Fund	(14)
(5,466)	Housing Revenue Account	(7,028)
(5,903)	Minimum Revenue Provision	(6,343)
5,511	MRP holiday	5,920
(2,191)	Write dow n of finance lease liability	(2,760)
(51,201)		(47,231)
792,538	Closing Capital Financing Requirement	798,012

2016/17 £000	Explanation of movements in year	2017/18 £000
5,290	Increase in underlying need to borrow ing (unsupported by government financial assistance)	5,473
0	Assets acquired under finance leases	0
5,290	Increase in Capital Financing Requirement	5,473

Note 43 **Leases**

The classification of all types of lease including land is assessed on who has the risks and rewards of ownership as for all other types of lease.

Contingent rents are expensed in the year in which they are incurred.

(a) Finance leases – Council as Lessee

The movements in Finance Lease liabilities during the year are as follows:

	31 Mar 17 £000	31 Mar 18 £000
Finance Lease Liability outstanding at start of year	(28,741)	(28,501)
Principal repaid in year	231	249
Less: Schools converting to academies Finance Lease Liability written off	9	0
New Liabilities arising in year	0	0
Balance outstanding at year end	(28,501)	(28,252)
Short Term Creditors	(249)	(269)
Long Term Liabilities	(28,252)	(27,983)

The minimum lease payments will be payable over the following periods:

	Minimum Lease Payments		Finance Lease Liabilities	
	31 Mar 17 £000	31 Mar 18 £000	31 Mar 17 £000	31 Mar 18 £000
Not later than one year	(234)	(3,234)	(234)	(269)
Later than one year and not later than five years	(1,007)	(13,319)	(1,007)	(1,026)
Later than five years	(27,499)	(110,373)	(27,499)	(26,957)

The assets acquired under the leases are carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts:

2016/17 £000		2017/18 £000
27,753	Land and buildings	27,099
336	Vehicles, Plant, Furniture and Equipment	206
28,089	Total	27,305

(b) Operating leases – Council as Lessee

The Council has the right of use over a range of assets by virtue of operating leases that it has entered into. The future minimum lease payments due under these non-cancellable leases in future years are:

2016/17 £000		2017/18 £000
1,345	Within one year	1,153
2,914	Between one year and five years	2,382
5,114	After more than five years	4,936

The expenditure charged to service in 2017/18 in the Comprehensive Income and Expenditure statement in relation to these leases was £1.407m (£1.684m 2016/17).

(c) Finance leases – Council as Lessor

The Council has leased out property to Thurstcroft Junior School, land on which the Council's former Civic buildings were situated and land on which the former Doncaster Gate building was situated. The former is being leased out on a peppercorn rent. The minimum leased payments in respect of the latter two were received in full as a premium. As a consequence, there is no net investment in finance lease receivable to bring onto the balance sheet.

(d) Operating leases – Council as Lessor

Most of the property and equipment leased out by the Council meets the definition of investment property. The rental income earned from leasing out these investment properties is disclosed in Note 20.

Note 44 Private Finance Initiative and Similar Contracts

As at 31 March 2018, the Council has in place three long-term contracts under Private Finance Initiative (PFI) arrangements, one of which, the Waste PFI, is a joint contract with Barnsley and Doncaster Councils. In addition, it has in place one partnership agreement.

As a result of a change to the way in which PFI Schemes and Similar Contracts were accounted for in 2009/10 on transition to IFRS, assets within the PFI Schemes or Similar Contracts were brought on Balance Sheet. The movement in the carrying value of these assets is disclosed in the Property Plant and Equipment note (Note 19a).

The note below provides a brief description of each scheme and outstanding obligations.

(a) Private Finance Initiatives - Schools PFI

The contract for the provision of 8 primary and 6 secondary schools commenced on 1 April 2004 with an end date of 31 March 2034, and a capital value of £96m. All the schools were completed in line with the original programme. At the expiry of the contract the schools transfer back to the Council for nil consideration, with the exception of 8 PFI schools, 3 primary and 5 secondary schools which have converted to academy trusts and therefore transfer to the individual trusts under 125 lease arrangements with the Council. The agreed government funding is being received and the Authority has established a fund to manage income and expenditure over the rest of the 30 years of these arrangements. Payments during the year totalled £15.638m and are subject to availability and performance-related deductions and contractually agreed inflation adjustments. In the same period the Council received £6.223m of PFI grant in support of this project.

(b) Private Finance Initiatives – Sports and Leisure PFI

The Sport and Leisure Facilities Regeneration Programme and Maltby Joint Service Centre PFI involves the construction of 3 new combined swimming pools and dry leisure centres, one stand-alone swimming pool and a joint service centre. The contract with DC Projects (Rotherham) Ltd became operational in August 2008 and has a capital value of £38m. The contract expires on 31 October 2041, when all the assets transfer back to the Council for nil consideration. £24.954m of PFI Credits have been awarded to support the scheme. All 5 facilities are operational. Payments during the year totalled £4.729m. In the same period the Council received £1.811m of PFI grant in support of this project.

(c) Bereavement Services Partnership - Dignity

The Council signed a partnership agreement with Dignity Funerals Limited in July 2008, who now manage the Borough's bereavement services on the Council's behalf. The contract commenced in August 2008 and operates for a period of 35 years at which point all the Assets revert back to the Council for nil consideration. This is a partnership that will improve the provision of bereavement services to the Rotherham public, with significant investment having taken place on the crematorium facility and the wider East Herringthorpe site.

(d) Waste Management PFI

The Council's joint Waste PFI Contract, along with Barnsley and Doncaster Councils, with 3SE (Shanks, Scottish and Southern Energy) became operational in July 2015. The contract is providing

residual waste facilities for the 3 boroughs. The Councils have been jointly awarded £77.4m PFI credits for this project. The Council received £1.789m of PFI grant in support of this project in 2017/18. Payments during the year totalled £6.548m. The contract will assist the Councils in achieving their overall 50% recycling targets.

(e) Movements in Finance Liabilities

The Table below shows the movements in the Finance Liabilities during 2017/18:

	31 Mar 17 £000	31 Mar 18 £000
Balance outstanding at start of year	(109,001)	(107,050)
Principal repaid in year	1,951	2,511
Balance outstanding at year end	(107,050)	(104,539)
Short Term Creditors	(2,511)	(2,894)
Long Term Liabilities	(104,539)	(101,645)

The minimum lease payments will be payable over the following periods:

	Payment for Services £000	Finance Lease Liability £000	Interest £000	Total £000
Not later than one year	14,840	2,894	10,512	28,246
Two to five years	66,195	12,192	39,693	118,080
Six to ten years	93,806	22,035	44,613	160,454
Eleven to Fifteen years	107,212	34,062	36,490	177,764
Sixteen to twenty years	81,340	20,619	20,278	122,237
Twenty one to twenty five years	54,231	12,258	9,193	75,682
Twenty six to thirty years	2,693	477	728	3,898

Note 45 Capitalised borrowing costs

The Council had £39,577 of capitalised borrowing costs during 2017/18 (£24,504 in 2016/17) the capitalisation rate used in 2017/18 was 4.19% (4.25% in 2016/17).

Note 46 Contingent Liabilities

Lord Hardy Court Nursing Home

Following a death at the nursing home in 2013 and resulting outcome in the Coroners Court in 2015, the Adults Safeguarding Board commissioned a Safeguarding Review. The incident has resulted in a litigation case against the council and is being dealt with by the Council's insurance section in conjunction with our appointed legal partners, Kennedys Law. Kennedys are in the process of compiling statements to assist the Council in defending the claim.

Note 47 Contingent AssetsClaims for recovery of tax and damages

Protective VAT claims have been submitted to HMRC to recover VAT on Disabled Facilities Grants, Landfill Tax, and Cultural Exemption. There is also a claim for damages filed at the High Court against Royal Mail. The quantity and strength of the claims have yet to be determined by litigation.

Note 48 Trust Funds

The Council acts as sole trustee for various legacies relating to the provision of educational supplies to specific local schools. Each fund holds investments and may use the interest derived from those investments to fund the purchase of supplies.

Accumulated interest balances and the respective balance sheets are as follows:

	Balance as at 1 Apr 2017 £	Income £	Expenditure £	Balance as at 31 Mar 18 £
Treeton Council School War Memorial	743	28	0	771
EJ Butland, Treeton Infants	649	28	0	677
Whiston Tw o Wars Memorial	709	114	0	823
Total	2,101	170	0	2,271

Trust Funds – Balance Sheet

2016/17 £		2017/18 £
	<u>Assets</u>	
	Investments	
58	- Treeton Council School War Memorial	58
59	- EJ Butland, Treeton Infants	59
233	- Whiston Tw o Wars Memorial	233
350	Total Investments	350
42	- Debtors	40
2,058	- Cash	2,231
2,450	Total Assets	2,621
	<u>Financed by:</u>	
350	- Fund Balance	350
2,101	- Accumulated Investment Interest	2,271
2,451	Total Equity	2,621

Note 49 **Material items of income and expenditure**

This note is used to draw attention to material items of income and expenditure not disclosed separately on the face of the CIES which need to be taken into consideration to gain a full understanding of the Council's financial performance in the year.

Schools

As shown in Note 18 of the accounts on page 60, £9.185m has been credited to the CIES in respect of settlements. This all relates to the transfer of pension liabilities from the Council when schools convert to academies and, as a consequence, has been credited in full to the "Schools" heading within the CIES.

Minimum Revenue Provision (MRP)

A change in MRP policy in 2014/15 to produce a fairer charge to revenue for present and future council tax payers in respect of pre 2007/08 debt identified that £34.783m of MRP had been overcharged in the period 2007/08 to 2014/15. The overcharge is being recovered by taking an MRP holiday as set out in Accounting Policy 15.

As at 1 April 2017, £14.680m of the overcharge had still to be recovered. As shown in Note 42 on page 92 of the accounts, a further £5.920m has been recovered in 2017/18.

Loss on disposal of non-current assets

The loss on disposal of non-current assets reported in Note 4 of £42.055m includes £42.828m of school property, plant and equipment transferred from the Council's balance sheet as a result of schools converting to an academy.

HRA

The large variance between 2016/17 and 2017/18 HRA expenditure figures is the result of a large revaluation gain being applied in 2016/17 that was the result of a government change in social housing discount factor. There was no material adjustment required in 2017/18.

Pensions Prepayments

In 2017/18 the Council made two payments to the South Yorkshire Pensions Authority in return for discounts on employers' ongoing service contributions and the past service deficit. The first of these was a prepayment of £21.8m made in April 2017 in respect of the Past Service Deficit for the three financial years 2017/18 to 2019/20, in order to realise a discount of £1.372m on the actuary's estimate of the deficit contribution for this period. The prepayment has been charged to the accounting periods for which it relates in accordance with the Council's Accounting Policies.

A further prepayment of £12.6m was also made in April 2017, this being 80% of the estimated employers ongoing service contributions for the financial year 2017/18.

Note 50 **Other Long-term Liabilities**

31 Mar 17 £000		31 Mar 18 £000	Notes
(104,539)	PFI Liability	(101,645)	44
(28,252)	Finance Lease Liability	(27,983)	43
(466,714)	Pension Liability	(371,554)	18
(5,705)	Deferred Liabilities	(3,981)	50
(605,209)	Total	(505,163)	

Deferred Liabilities

The Council has a proportionate share in the interests of the Metropolitan (former South Yorkshire County Council) Debt (Page 111 of this Statement refers). As at 31 March 2018 the deferred

liabilities of Rotherham MBC arising out of the Metropolitan Debt Administration amounted to £5,704,770 comprising £1,723,488 maturing within one year and £3,981,282 after that date.

Note 51 **Events after the Balance Sheet date**

The Statement of Accounts was authorised for issue by the Judith Badger, Strategic Director of Finance and Customer Services on 30 July 2018. Events taking place after this date are not reflected in the Financial Statements or Notes.

Where events taking place before this date provided information about conditions existing at 31 March 2018, the figures in the Financial Statements and Notes have been adjusted in all material respects to reflect the impact of this information.

Other Financial Statements and Notes to the Other Financial Statements

Housing Revenue Account (HRA)

The Collection Fund Income and Expenditure Account

Metropolitan Debt Administration

HOUSING REVENUE ACCOUNT INCOME AND EXPENDITURE STATEMENT

The Housing Revenue Account (HRA) shows the economic cost in the year of providing housing services in accordance with generally accepted accounting principles, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the Movement on the HRA Statement.

2016/17 £000		2017/18 £000	Notes
	<u>Expenditure</u>		
18,382	Repairs and maintenance	19,743	
18,987	Supervision and management	21,118	
230	Rents, rates, taxes and other charges	169	
(71,830)	Depreciation and impairment of Non Current Assets	27,767	
116	Debt management costs	124	
1,139	Provision for bad or doubtful debts	830	8
(32,976)	Total Expenditure	69,751	
	<u>Income</u>		
78,801	Dw elling rents	77,873	
776	Non-dw elling rents	765	
5,519	Charges for services and facilities	5,707	
85,096	Total Income	84,345	
(118,072)	Net Cost of HRA Services as included in the Comprehensive Income and Expenditure Statement	(14,594)	
289	HRA services share of Corporate and Democratic Core	274	
(296)	HRA share of other amounts included in w hole Authority Cost of Services but not allocated to specific services	(1,222)	
(118,079)	Net Cost of HRA Services	(15,542)	
	<u>HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement</u>		
(445)	Gain on sale of HRA Non Current Assets	(1,195)	
13,555	Interest Payable and similar charges	13,419	9
(101)	Interest receivable	(97)	
491	Pensions interest cost and expected return on pension assets	537	10
(262)	Capital grants and contributions receivable	(4,119)	
193	Revaluation of Assets held for sale	(134)	
(104,648)	Surplus for the year on HRA services	(7,131)	

Movement on the Housing Revenue Account Statement

This statement takes the outturn on the HRA Income and Expenditure Statement and reconciles it to the surplus or deficit of the year on the HRA Balance, calculated in accordance with the requirements of the Local Government and Housing Act 1989.

2016/17			2017/18	
£000	£000		£000	£000
	(27,932)	Balance on the HRA at the end of the previous year		(35,155)
(104,648)		Surplus for the year on HRA Income and Expenditure Account	(7,131)	
97,425		Adjustments between accounting basis and funding basis under statute	4,615	
(7,223)		Net increase before transfers to or from reserves	(2,516)	
		Transfers to reserves	163	
	(7,223)	Increase in year on the HRA		(2,353)
	(35,155)	Balance on the HRA at the end of the current year		(37,508)

Notes to the Housing Revenue Account**Note 1 Adjustments between Accounting Basis and Funding Basis Under Regulations**

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

2016/17	Usable Reserves		
	Housing Revenue Account £000	Major Repairs Reserve £000	Movement in Usable Reserves £000
<u>Adjustments primarily involving the Capital Adjustment Account:</u>			
Charges for impairment of non current assets (Council dwellings only)	18,821	0	18,821
Capital grants and contributions applied	(621)	0	(621)
Gain/Loss on disposal on non current assets charged to the Comprehensive Income and Expenditure Statement	(1,880)	0	(1,880)
<u>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</u>			
Capital expenditure charged against the General Fund and HRA balances	(4,572)	0	(4,572)
<u>Adjustments primarily involving the Major Repairs Reserve:</u>			
Reversal of Major Repairs Allowance credited to the HRA	(7,098)	7,098	0
HRA Depreciation to the Capital Adjustment Account	0	12,970	12,970
Use of the Major Repairs Reserve to finance new capital expenditure	0	(20,932)	(20,932)
<u>Adjustment primarily involving the Financial Instruments Adjustment Account:</u>			
Amount by which finance costs charged to the Comprehensive Income & Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	130	0	130
<u>Adjustments primarily involving the Pensions Reserve:</u>			
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	1,602	0	1,602
Employer's pension contributions and direct payments to pensioners payable in the year	(1,103)	0	(1,103)
Short-term Accumulated Absences Account	(3)	0	(3)
Total Adjustments	5,276	(864)	4,412

Note 1 continued

2017/18	Usable Reserves		
	Housing Revenue Account £000	Major Repairs Reserve £000	Movement in Usable Reserves £000
<u>Adjustments primarily involving the Capital Adjustment Account:</u>			
Charges for impairment of non current assets	9,001	0	9,001
Capital grants and contributions applied	(4,119)	0	(4,119)
Revenue Expenditure Funded from capital under statute	223		223
Gain/Loss on disposal on non current assets charged to the Comprehensive Income and Expenditure Statement	(1,195)	0	(1,195)
<u>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</u>			
Capital expenditure charged against the General Fund and HRA balances	(7,028)	0	(7,028)
<u>Adjustments primarily involving the Major Repairs Reserve:</u>			
Transfer from HRA to Major Repairs Reserve re notional MRA	(2,619)	2,619	0
HRA Depreciation to the Capital Adjustment Account	0	17,463	17,463
Use of the Major Repairs Reserve to finance new capital expenditure	0	(15,632)	(15,632)
<u>Adjustment primarily involving the Financial Instruments Adjustment Account:</u>			
Amount by which finance costs charged to the Comprehensive Income & Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	36	0	36
<u>Adjustments primarily involving the Pensions Reserve:</u>			
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	2,340	0	2,340
Employer's pension contributions and direct payments to pensioners payable in the year	(1,259)	0	(1,259)
Short-term Accumulated Absences Account	4	0	4
Total Adjustments	(4,616)	4,450	(166)

Note 2 Housing Stock at 31 March 2018

	Houses	Flats	Bungalow s	Total
1 Bedroom	4	2,199	2,784	4,987
2 Bedroom	1,938	2,794	1,921	6,653
3 Bedroom	8,136	298	49	8,483
4+ Bedroom	261	9	0	270
Total	10,339	5,300	4,754	20,393

Note 3 Housing Stock Valuations**(a) Property, Plant and Equipment**

2016/17	Council Dwellings £000	Other Land & Buildings £000	Vehicles, Plant & Equipment £000	PP&E Under Construction £000	Surplus Assets £000	Total PP&E £000
Cost or Valuation						
At 1 Apr 16	515,883	14,832	491	2,631	9,531	543,367
Additions	23,238	300	0	1,251	0	24,788
Accumulated Depreciation and Impairment written out to gross cost/valuation	(50,918)	(789)	0	0	(2)	(51,708)
Revaluation increases/decreases to Revaluation Reserve	54,788	506	0	0	1,464	56,758
Revaluation increases/decreases to Surplus or Deficit on the Provision of Services	119,100	(66)	0	0	263	119,297
Derecognition	(5,013)	0	0	0	(95)	(5,107)
Assets reclassified (to) / from Investment Property	0	0	0	0	(374)	(374)
Other Movements in cost valuation	2,873	(255)	0	(2,618)	0	0
At 31 Mar 17	659,952	14,528	491	1,263	10,786	687,021
Depreciation and Impairment						
At 1 Apr 16	(33,769)	(1,044)	(206)	0	(2)	(35,021)
Accumulated Depreciation written out to gross cost/valuation	29,250	468	0	0	0	29,718
Accumulated Impairment written out to gross cost/valuation - as restated	21,668	321	0	0	2	21,990
Depreciation Charge	(32,796)	(577)	(71)	0	(2)	(33,446)
Impairment losses/reversals to Revaluation Reserve	(3,027)	(294)	0	0	0	(3,321)
Impairment losses/reversals to Surplus or Deficit on the Provision of Services	(13,675)	0	0	0	0	(13,675)
Derecognition - Disposals	79	0	0	0	0	79
Other movements in depreciation and impairment	(18)	18	0	0	0	0
At 31 Mar 17	(32,290)	(1,108)	(277)	0	(2)	(33,676)
Net Book Value						
At 31 Mar 17	627,662	13,420	214	1,263	10,785	653,346
At 31 Mar 16	487,037	14,638	351	1,377	4,022	507,425

2017/18	Council Dwellings £000	Other Land & Buildings £000	Vehicles, Plant & Equipment £000	PP&E Under Constructio n £000	Surplus Assets £000	Total PP&E £000
Cost or Valuation						
At 1 Apr 17	659,952	14,528	491	1,263	10,786	687,021
Additions	18,880	221	0	5,112	4	24,217
Accumulated Depreciation and Impairment written out to gross cost/valuation	(33,566)	(857)	0	0	(1,236)	(35,659)
Revaluation increases/decreases to Revaluation Reserve	7,074	423	0	0	834	8,331
Revaluation increases/decreases to Surplus or Deficit on the Provision of Services	1,060	(122)	0	0	1,171	2,108
Derecognition - Disposals	(6,751)	0	0	0	(25)	(6,776)
Assets reclassified (to) / from Assets Held for Sale	0	0	0	0	0	0
Other Movements in cost valuation	1,164	(465)	0	(728)	2,166	2,138
At 31 Mar 18	647,813	13,728	491	5,647	13,699	681,380
Depreciation and Impairment						
At 31 Mar 17	(32,290)	(1,108)	(277)	0	(2)	(33,676)
Accumulated Depreciation written out to gross cost/valuation	16,882	563	0	0	1,236	18,681
Accumulated Impairment written out to gross cost/valuation	16,684	294	0	0	0	16,978
Depreciation Charge	(16,803)	(587)	(71)	0	(2)	(17,463)
Impairment losses/reversals to Revaluation Reserve	(3,170)	(205)	0	0	0	(3,374)
Impairment losses/reversals to Surplus or Deficit on the Provision of Services	(11,154)	0	0	0	(4)	(11,158)
Derecognition - Disposals	124	0	0	0	0	124
Other movements in depreciation and impairment	(9)	9	0	0	(1,234)	(1,234)
At 31 Mar 18	(29,736)	(1,033)	(348)	0	(6)	(31,124)
Net Book Value						
At 31 Mar 18	618,077	12,695	143	5,647	13,694	650,257
At 31 Mar 17	627,661	13,420	214	1,264	10,785	653,346

Other assets including district boiler houses have been classified as intrinsic to the day to day operation of the housing estates in which they are located and as such have no asset value in their own right. Garage structures are valued based upon capitalised income streams.

Other operational property plant and equipment such as estate shops and area housing offices are held within the General Fund Asset Register.

(b) Vacant possession

	£m
Value as at 1 Apr 17	1,548

The difference between the Balance Sheet valuation of dwellings shown at (a) above and the vacant Possession value reflects the economic cost to Government of providing Council Houses at less than open market rents.

Note 4 Major Repairs Reserve

The Council is required by regulation to establish a Major Repairs Reserve. The main credit to the account comprises the total depreciation charge for all Housing Revenue Account assets. Capital expenditure is then funded from the reserve without being charged to the Housing Revenue Account.

2016/17 £000		2017/18 £000
3,874	Balance as at 1 April	5,219
33,446	Depreciation in the year	17,463
(13,471)	Transfer to MRR	2,619
(18,630)	Financing of Capital Expenditure	(15,632)
5,219	Balance as at 31 March	9,669

Note 5 Financing of Capital Expenditure

Capital expenditure on Land, Houses and Other Property within the HRA was financed as follows:

	2017/18 £000
Borrowing Need	0
Capital Receipts	400
Revenue Contributions	7,020
Government Grants / Other Capital Income	1605
Major Repairs Reserve	15,632
Total	24,657

During the year total capital receipts of £8.118m were received by the HRA, of which £5.950m was available to support capital expenditure within the Council

Note 6 Depreciation

A depreciation charge has been included in respect of dwelling houses within the Housing Revenue Account. This charge is based upon the value of the dwelling stock at the 1 April 2017 excluding the value of land. Depreciation has been calculated using the 'straight line' method over 30 years.

An additional depreciation charge has been included in the total charged to the Housing Revenue Account in respect of garages. This charge is based upon the value at 1 April 2017 and has been calculated using the 'straight line' method over 15 years.

Note 7 Impairment

A net impairment charge of (£10.221m) has been included in the HRA Income and Expenditure Account (£105.359m reversal in 2016/17). This charge is reflected in the HRA Income and Expenditure Account in arriving at the surplus on the provision of HRA Services. In accordance with proper accounting practice the Council reversed out the impairment charge in determining the movement on the HRA balance.

Note 8 Rent Arrears & Other Provisions for Bad and Doubtful Debts

2016/17 £000		2017/18 £000
	Rent Arrears	
4,452	Current Tenants	4,505
3,344	Former Tenants	3,389
7,796	As at 31 March	7,894

As at 31 March 2018, the level of rent arrears for current tenants as a proportion of gross rent income was 5.29% (2016/17 5.15%).

2016/17 £000	Bad Debt Provision in respect of rent income	2017/18 £000
2,893	As at 1 April	3,813
1,068	Increase in Provision	779
(148)	Utilised in year	(737)
3,813	As at 31 March	3,855

Provision has also been made in the accounts for write-offs in respect of tenants' and former tenants' rechargeable repairs are as follows:

2016/17 £000	Bad Debt Provision in respect of the rechargeable repairs	2017/18 £000
526	As at 1 April	556
72	Increase in Provision	51
(42)	Utilised in year	(76)
556	As at 31 March	531

Note 9 Interest Payable and Other Charges

This is the cost of external interest payable together with the cost of debt redemption premium.

Note 10 Contributions to and from the Pensions Reserve

Local authorities are required to account for their pension costs on an IAS 19 basis, but to reverse the impact of IAS 19 based accounting to the Pensions Reserve to ensure that it does not impact on housing rents.

THE COLLECTION FUND

By statute, billing Authorities are required to maintain a separate Collection Fund which shows the level of National Non Domestic Rates (NNDR), Council Tax and the residual Community Charge received by the Council during the accounting period and the distribution of these funds.

REVENUE ACCOUNT FOR YEAR ENDED 31 MARCH 2018

2016/17				2017/18			Note
Council Tax £000	Non Domestic Rates £000	Total £000		Council Tax £000	Non Domestic Rates £000	Total £000	
110,264		110,264	Council Tax Receivable	117,044		117,044	2
	75,400	75,400	National Non-Domestic Rates (excluding write-offs)		77,102	77,102	
	(468)	(468)	NNDR Transitional Payments		(4,640)	(4,640)	
110,264	74,932	185,196	Total Income	117,044	72,462	189,506	
			Precepts:				
91,578	36,564	128,142	Rotherham Metropolitan Borough Council	97,717	33,227	130,944	
	36,591	36,591	Central Government		33,495	33,495	
10,285		10,285	- South Yorkshire Police and Crime Commissioner	10,792		10,792	
4,541	739	5,280	South Yorkshire Fire & Civil Defence	4,705	674	5,379	
106,404	73,894	180,298		113,214	67,396	180,610	
			Distribution of previous years surplus(deficit):				
4,000	(841)	3,159	Rotherham Metropolitan Borough Council	3,000	1,831	4,831	
	(858)	(858)	Central Government		1,868	1,868	
357		357	- South Yorkshire Police and Crime Commissioner	338		338	
159	(17)	142	South Yorkshire Fire & Civil Defence Authority	150	37	187	
4,516	(1,716)	2,800		3,488	3,736	7,224	
			Charges to Collection Fund:				
626	555	1,181	Write off of uncollectable amounts	249	295	544	
(80)	578	498	Increase/(Decrease) in bad debt provision	556	378	934	
	(3,785)	(3,785)	Increase in provision for appeals		2,226	2,226	
	312	312	Cost of Collection		303	303	
	6	6	Adjust 15/16 Disregard		0	0	
	169	169	Disregarded amounts		443	443	
546	(2,165)	(1,619)		805	3,645	4,450	
111,466	70,013	181,479	Total amounts charged to the Collection Fund	117,507	74,777	192,284	
(1,202)	4,919	3,717	Surplus/(Deficit) arising during the year	(463)	(2,315)	(2,778)	
			Collection Fund Balance				
(1,202)	4,919	3,717	Surplus/(Deficit) arising during the year	(463)	(2,315)	(2,778)	
7,606	(1,920)	5,686	Surplus brought forward	6,404	2,999	9,403	
6,404	2,999	9,403	Surplus carried forward	5,941	684	6,625	4

Notes to the Collection Fund Statement**Note 1 Council Tax**

The Council Tax system involves the categorisation of properties into bands (A-H) dependent upon their value. It is a requirement of the Local Government Finance Act 1992 that the basis on which the Council Tax is calculated should be expressed as a ratio of the Band D equivalent. Totals of properties falling into bands other than Band D therefore have to be adjusted to reflect their relationship to this band. The effect of this for 2017/18 is shown below.

Adjustments to the Council Tax base to reflect the estimated collection rate of Council Tax are also set out below:

Band	Number of Band D Equivalents properties	Ratio to Band D	Collection Rate @ 97%
A	26,880	6:9	26,074
B	14,664	7:9	14,224
C	11,837	8:9	11,482
D	8,257	9:9	8,009
E	5,213	11:9	5,057
F	2,329	13:9	2,259
G	1,098	15:9	1,065
H	67	18:9	65
	70,345		68,235

Note 2 National Non-Domestic Rates (NNDR) – Business Rates

Business Rates are levied on non-domestic premises at a rate in the pound determined by Central Government which is applied nationally (the national multiplier). The national multiplier in 2017/18 was 47.9 pence in the pound and a small business rating multiplier of 46.6 pence in the pound (49.7 pence and 48.4 pence respectively in 2016/17).

The NNDR income in 2017/18 after allowing for mandatory and discretionary reliefs of £77.102m (75.400m 2016/17) was based on a total rateable value of £189.2m as at 31 March 2018 (£188.5m as at 31 March 2017).

Note 3 Discounts

The Council does not operate a discount scheme for the early payment of Council Tax.

Note 4 Collection Fund Balance

The balance on the Collection Fund at 31 March 2018 is a surplus of £6.625m (£9.403m surplus 2016/17) and consists of a £0.684m surplus (£2.999m surplus 2016/17) relating to business rates to be distributed to the billing Authority (Rotherham MBC), Central Government and South Yorkshire Fire and Civil Defence Authority, and a £5.941m surplus (£6.404m surplus 2016/17) in relation to Council Tax to be distributed to the billing Authority (Rotherham MBC), South Yorkshire Police and Crime Commissioner and South Yorkshire Fire and Civil Defence Authority as follows:

2016/17 Council Tax £000	2016/17 NNDR £000	2016/17 Total £000		2017/18 Council Tax £000	2017/18 NNDR £000	2017/18 Total £000
5,898	1,469	7,367	Billing Authority – Rotherham MBC	5,509	335	5,844
0	1,500	1,500	Central Government	0	343	343
			Major Precepting Authorities:			
351	0	351	- South Yorkshire Police and Crime Commissioner	301	0	301
155	30	185	- South Yorkshire Fire and Civil Defence Authority	131	6	137
6,404	2,999	9,403	Total	5,941	684	6,625

Note 5 **Parish Precepts**

Precept demands are issued by the parishes on the Council as Billing Council. In turn the Council issues a precept on the Collection Fund for the year inclusive of the parish precepts payable. The payment of the parish precepts appears as a charge in the Comprehensive Income and Expenditure Account (see Note 4 Other Operating Expenditure).

METROPOLITAN DEBT ADMINISTRATION

The Council became responsible for the administration of the former South Yorkshire County Council (SYCC) Debt from 1 April 1986. The following statements account for the administration of the Metropolitan Debt.

2016/17 £000	Capital Account	2017/18 £000
(35,400)	Cash at bank 1 April	(33,840)
(35)	Transfer (from) Financial Instruments Adjustments Account	(35)
0	Adjustment to loans outstanding for interest accruals	0
10,000	Add: Expenditure in the year – Loans repaid	39,709
(25,435)		5,834
	Less Income:	
0	Loans raised	0
8,405	Repayments by Relevant Authorities	8,846
(33,840)	Cash at bank 31 March	(3,012)

2016/17 £000	Revenue Account	2017/18 £000
4,511	Interest Paid on Outstanding Loans	3,220
50	Management and other expenses	49
4,561		3,269
	Less Income:	
116	Notional Interest	62
4,445		3,207
4,445	Recharge to Relevant Authorities	3,207
0		0

2016/17 £000	Balance Sheet as at 31 March	2017/18 £000
	Capital Liabilities	
78,253	Loans Outstanding	37,828
(33,840)	Cash at bank	(3,012)
44,413		34,816
	Capital Assets	
44,378	Advances Outstanding	34,816
	Reserves	
35	Financial Instruments Adjustments Account (FIAA)	0
44,413		34,816

Note 1 Financial Instruments – Balances

The borrowings disclosed in the Balance Sheet are made up of the following categories of financial instruments:

	Long Term		Short Term	
	31 Mar 17 £000	31 Mar 18 £000	31 Mar 17 £000	31 Mar 18 £000
Financial liabilities (principal amount) - PWLB	37,000	36,189	39,708	811
Financial liabilities at amortised cost - PWLB	37,000	36,189	41,253	1,639
Loans and receivables (principal amount)	0	0	0	0
Loans and receivables at amortised cost	0	0	0	0

Note 2 Financial Instruments – Maturity Analysis

The maturity analysis of financial liabilities is as follows:

31 Mar 17 £000		31 Mar 18 £000
41,253	Less than one year	1,639
811	Between one and two years	16,500
36,189	Between two and five years	19,689
78,253		37,828

Note 3 Financial Instruments – Fair Values**Fair Value of Financial Assets**

At 31 March 2018 the Metropolitan Administration Account had no Available for Sale financial assets measured in the Balance Sheet at fair value on a recurring basis (Nil at 31 March 2017). There were no transfers between input levels 1 and 2 during the year and there has been no change in the valuation technique used during the year for Available for Sale financial instruments.

Fair Value of Financial Assets and Financial Liabilities not measured at Fair Value

All other financial liabilities and financial assets represented by loans and receivables which are not measured at Fair Value but for which a disclosure is required are carried in the balance sheet at amortised cost. Their fair value has been assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments (Level 2), using the following assumptions:

- For loans from the Public Works Loans Board (PWLB) redemption rules and prevailing PWLB redemption rates as at each balance sheet date.
- For loans receivable prevailing benchmark market rates have been used to provide the fair value;
- No early payment or impairment is recognised;
- Where an instrument has a maturity of less than 12 months or is a trade or other receivable the fair value is taken to be the carrying amount, either the principal outstanding or the billed amount.

The fair value of Public Works Loan Board (PWLB) loans of £40.430m measures the economic effect of the terms agreed with the PWLB compared with estimates of the terms that would be offered for market transactions undertaken at the Balance Sheet date. The difference between the carrying amount and the fair value (£2.602m) measures the additional interest that the Account will pay over the remaining terms of the loans under the agreements with the PWLB, against what would be paid if the loans were at prevailing market rates.

However, the Account has a continuing ability to borrow at concessionary rates from the PWLB rather than from the markets. A supplementary measure of the additional interest that the authority will pay as a result of its PWLB commitments for fixed rate loans is to compare the terms of these loans with

the new borrowing rates available from the PWLB. If a value is calculated on this basis, the carrying amount of £37.828m would be valued at £39.846m. But, if the Account was to seek to avoid the projected loss by repaying the loans to the PWLB, the PWLB would raise a penalty charge for early redemption by charging a premium equivalent to the additional interest, based on the redemption interest rates (£2.602m) that would not then be paid. The exit price for the PWLB loans including this charge would therefore be £40.430m.

The fair values of the financial instruments are as follows:

31 Mar 17			31 Mar 18	
Carrying amount £000	Fair Value at Redemption rate £000		Carrying amount £000	Fair Value at Redemption rate £000
78,253	84,383	Financial Liabilities – Debt	37,828	40,430
0	0	Loans and Receivables	0	0

The fair value for financial liabilities is greater than the carrying value because the Account's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans in the market at the balance sheet date. This shows a notional future loss (based on economic conditions at 31 March 2018) arising from a commitment to pay interest to lenders above current market rates.

Note 4 Financial Instruments Adjustment Account

This reserve has been opened to hold the accumulated difference between the financing costs included in the Revenue Account and the accumulated financing costs required in accordance with regulations to be charged to the Metropolitan Debt Administration Account.

Unless directly attributable to a loan held at 31 March 2007 then all premiums and discounts carried on the Balance Sheet at that date were written off at 1 April 2007. Regulations allowed for this impact to be neutralised through transfer to this account. The balance is amortised to the Revenue Account in line with the provisions set down in the Council's accounting policies.

31 Mar 17 £000		31 Mar 18 £000
70	Balance at 1 April	35
0	Movement in year	0
(35)	Premium and discounts	(35)
35	Balance carried forward at 31 March	0

Note 5 Authorised Limit and Operational Boundary

For the former SYCC, the Council's operational boundary for external debt for the year was £76.709m and its Authorised Limit for External Debt, the statutory limit determined under section 3(i) of the Local Government Act 2003, was £76.709m.



GLOSSARY

This listing will help Members and other readers to understand the terminology used within the Statement of Accounts.

ACCOUNTING PERIOD

The period of time covered by the accounts, normally a period of twelve months commencing on 1 April. The end of the accounting period is the Balance Sheet date.

ACCRUALS

Sums included in the final accounts to recognise revenue and capital income and expenditure earned or incurred in the financial year, but for which actual payment had not been received or made as at 31 March.

ADDED YEARS

A discretionary award increasing the value of pensions for retiring employees aged 50 or over subject to specific conditions. Employers' must exercise this discretion in accordance with the national regulations and the Council's own policies.

ASSET

An asset is a resource controlled by the Council as a result of past events from which future economic benefits or service potential is expected to flow to the Council.

- A current asset is an amount which is expected to be realised within 12 months.
- A non-current asset is an amount which is expected to be realised after more than 12 months.

AUDIT OF ACCOUNTS

An independent examination of the Council's financial affairs.

BALANCE SHEET

A statement of the recorded assets, liabilities and other balances at the end of the accounting period.

BORROWING

Government support for capital investment is described as either Supported Capital Expenditure (Revenue) known as SCE(R) or Supported Capital Expenditure (Capital Grant) known as SCE(C). SCE can be further classified as either Single Capital Pot (SCP) or ring-fenced.

BUDGET

The forecast of net revenue and capital expenditure over the accounting period.

CAPITAL ADJUSTMENT ACCOUNT

An account maintained to provide a balancing mechanism between the different rates at which assets are depreciated and are financed through the capital controls system.

CAPITAL CHARGE

A charge made to service revenue accounts to reflect the cost of Non-Current Assets used in the provision of services.

CAPITAL EXPENDITURE

Expenditure on the acquisition of a fixed asset, which will be used in providing services beyond the current accounting period, or expenditure which adds to and not merely maintains the value of an existing fixed asset.

CAPITAL FINANCING

Funds raised to pay for capital expenditure. There are various methods of financing capital expenditure including borrowing, leasing, direct revenue financing, usable capital receipts, capital grants, capital contributions, revenue reserves and earmarked reserves.

CAPITAL PROGRAMME

The capital schemes the Council intends to carry out over a specific period of time.

CAPITAL RECEIPT

The proceeds from the disposal of land or other Non-Current Assets. Proportions of capital receipts can be used to finance new capital expenditure, within rules set down by the government but they cannot be used to finance revenue expenditure.

CIPFA

The Chartered Institute of Public Finance and Accountancy

COLLECTION FUND

A separate fund that records the income and expenditure relating to Council Tax and non-domestic rates.

COMMUNITY ASSETS

Assets that the Council intends to hold in perpetuity, that have no determinable useful life and that may have restrictions on their disposal. Examples of community assets are parks and historical buildings.

CONSISTENCY

The concept that the accounting treatment of like items within an accounting period and from one period to the next are the same.

CONTINGENT ASSET

A contingent asset is a possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control.

CONTINGENT LIABILITY

A contingent liability is either:

- A possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control; or
- A present obligation arising from past events where it is not probable that a transfer of economic benefits will be required, or the amount of the obligation cannot be measured with sufficient reliability.

COUNCIL TAX

A banded property tax that is levied on domestic properties. The banding is based on assessed property values at 1 April 1991.

CREDITOR

Amount owed by the Council for work done, goods received or services rendered within the accounting period, but for which payment has not been made by the end of that accounting period.

CURRENT SERVICE COST (PENSIONS)

The increase in the present value of a defined benefits pension scheme's liabilities, expected to arise from employee service in the current period.

DEBTOR

Amount owed to the Council for works done, goods received or services rendered within the accounting period, but for which payment has not been received by the end of that accounting period.

DEFINED BENEFIT PENSION SCHEME

Pension schemes in which the benefits received by the participants are independent of the contributions paid and are not directly related to the investments of the scheme.

DEPRECIATION

The measure of the cost of wearing out, consumption or other reduction in the useful economic life of the Council's Non-Current Assets during the accounting period, whether from use, the passage of time or obsolescence through technical or other changes.

DISCRETIONARY BENEFITS (PENSIONS)

Retirement benefits, which the employer has no legal, contractual or constructive obligation to award and are awarded under the Council's discretionary powers such as the Local Government (Discretionary Payments) Regulations 1996.

DEDICATED SCHOOLS GRANT (DSG)

A ring-fenced grant for Schools paid by the Department for Education and Skills (DfES) to the Local Council; it replaces the Schools Formula Spending Share (FSS).

EARMARKED RESERVE

A sum set aside in a reserve for a specific purpose.

EQUITY

The Council's value of total assets less total liabilities.

EVENTS AFTER THE BALANCE SHEET DATE

Events after the Balance Sheet date are those events, favourable or unfavourable, that occur between the Balance Sheet date and the date when the Statement of Accounts is authorised for issue.

EXCEPTIONAL ITEMS

Material items which derive from events or transactions that fall within the ordinary activities of the Council and which need to be disclosed separately by virtue of their size or incidence to give fair presentation of the accounts.

FAIR VALUE

The fair value of an asset is the price at which it could be exchanged in an arm's length transaction less, where applicable, any grants receivable towards the purchase or use of the asset.

FEES AND CHARGES

Income arising from the provision of services e.g. the use of leisure facilities.

FINANCIAL INSTRUMENTS ADJUSTMENT ACCOUNT

This reserve has been created under the SORP 2007 to hold the accumulated difference between the financing costs included in the Income and Expenditure Account and the accumulated financing costs required in accordance with Regulations to be charged to the General Fund Balance.

FINANCE LEASE

A lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee.

GENERAL FUND SERVICES

Comprises all services provided by the Council with the exception of services relating to the provision of local Council housing – which are accounted for in the Housing Revenue Account. The net cost of General Fund services is met by council tax, Government Grants and Business Rates.

GOING CONCERN

The concept that the Statement of Accounts is prepared on the assumption that the Council will continue in operational existence for the foreseeable future.

GOVERNMENT GRANTS

Grants made by the government towards either revenue or capital expenditure in return for past or future compliance with certain conditions relating to the activities of the Council. These grants may be specific to a particular scheme or may support the revenue spend of the Council in general.

HERITAGE ASSETS

Heritage assets are those assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations.

HOUSING BENEFITS

A system of financial assistance to individuals towards certain housing costs administered by authorities and subsidised by central government.

HOUSING REVENUE ACCOUNT (HRA)

A separate account to the General Fund, which includes the income and expenditure arising from the provision of housing accommodation by the Council.

IMPAIRMENT

A reduction in the value of a fixed asset to below its carrying amount on the Balance Sheet.

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

The revenue account of the Council that reports the net cost for the year of the functions for which it is responsible and demonstrates how that cost has been financed from precepts, grants and other income.

INFRASTRUCTURE ASSETS

Non-Current Assets belonging to the Council that cannot be transferred or sold, on which expenditure is only recoverable by the continued use of the asset created. Examples are highways, footpaths and bridges.

INVENTORIES

Items of raw materials and stores a Council has procured and holds in expectation of future use. Examples are consumable stores, raw materials and products and services in intermediate stages of completion.

INTANGIBLE ASSETS

An intangible (non-physical) item may be defined as an asset when access to the future economic benefits it represents is controlled by the reporting entity. This Council's intangible assets comprise computer software licences.

NET INTEREST EXPENSE (PENSIONS)

For a defined benefit scheme, the expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement less interest income earned on plan assets.

INVESTMENTS

A long-term investment is an investment that is intended to be held for use on a continuing basis in the activities of the Council. Investments should be so classified only where an intention to hold the investments for the long term can clearly be demonstrated or where there are restrictions as to the investor's ability to dispose of the investment.

INVESTMENTS (PENSION FUND)

The investments of the Pension Fund will be accounted for in the statements of that fund. However, authorities are also required to disclose, as part of the disclosure requirements relating to retirement benefits, the attributable share of the pension scheme assets associated with their underlying obligations.

LIABILITY

A liability is a present obligation arising from a past event, the settlement of which is expected to result in an outflow of resources.

A liability is where the Council owes payment to an individual or another organisation.

- A current liability is an amount which is expected to be settled within 12 months.
- A non-current liability is an amount which is expected to be settled after more than 12 months.

LIQUID RESOURCES

Current asset investments that are readily disposable by the Council without disrupting its business and are either:

- Readily convertible to known amounts of cash at or close to the carrying amount; or
- Traded in an active market

LONG-TERM CONTRACT

A contract entered into for the design, manufacture or construction of a single substantial asset or the provision of a service (or a combination of assets or services which together constitute a single project), where the time taken to substantially complete the contract is such that the contract activity falls into more than one accounting period.

MATERIALITY

The concept that the Statement of Accounts should include all amounts which, if omitted, or mis-stated, could be expected to lead to a distortion of the financial statements and ultimately mislead a user of the accounts.

MAJOR REPAIRS RESERVE

The Council is required by regulation to establish a Major Repairs Reserve. The main credit to the account comprises the total depreciation charge for all Housing Revenue Account assets. Capital expenditure is then funded from the reserve without being charged to the Housing Revenue Account.

MINIMUM REVENUE PROVISION (MRP)

The minimum amount which must be charged to the revenue account each year in order to provide for the repayment of loans and other amounts borrowed by the Council.

NET BOOK VALUE

The amount at which property, plant and equipment are included in the Balance Sheet, i.e. their historical costs or current value less the cumulative amounts provided for depreciation.

NET DEBT

The Council's borrowings less cash and liquid resources.

NET EXPENDITURE

Gross expenditure less specific grants and income for charging for services.

NET REALISABLE VALUE

The open market value of an asset in its existing use less any expenses incurred in realising the asset.

NON-DISTRIBUTED COSTS

These are overheads for which no user now benefits and as such are not apportioned to services

NATIONAL NON-DOMESTIC RATES (NNDR)

The National Non-Domestic Rate is a levy on businesses, based on a national rate in the pound set by the government and multiplied by the assessed rateable value of the premises they occupy. It is collected by the Council on behalf of the Council, Central Government, and South Yorkshire Fire and Civil Defence Council with surplus and deficits being shared in the ratio specified by Business Rates Retention Regulations.

OPERATING LEASE

A lease where the ownership of the fixed asset remains with the lessor.

PAST SERVICE COST (PENSIONS)

For a defined benefit pension scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to retirement benefits.

PENSION SCHEME LIABILITIES

The liabilities of a defined benefit pension scheme for outgoings due after the valuation date. Scheme liabilities measured during the projected unit method reflect valuation date.

PRECEPT

The levy made by precepting authorities by billing authorities, requiring the latter to collect income from Council Tax on their behalf.

PRIOR YEAR ADJUSTMENT

Material adjustments applicable to previous years arising from changes in accounting policies or from the correction of fundamental errors. This does not include normal recurring corrections or adjustments of accounting estimates made in prior years.

PRIVATE FINANCE IMITATIVE (PFI)

A contract in which the private sector is responsible for supplying services that traditionally have been provided by the Council. The Council will pay for the provision of this service, which is often linked to availability, performance and levels of usage.

PROPERTY, PLANT AND EQUIPMENT

Tangible assets used by the Council in the provision of services that yield benefits to the Council for a period of more than one year.

PROVISION

An amount put aside in the accounts for future liabilities or losses which are certain or very likely to occur but the amounts or dates of when they will arise are uncertain.

PRUDENCE

Requires that revenue is not anticipated until realisation can be assessed with reasonable certainty. Provision is made for all known liabilities whether the amount is certain or can only be estimated in light of the information available.

PRUDENTIAL CODE

Under the prudential framework, local authorities make their own decisions how much and what capital investment to undertake, based on their judgement on affordability, prudence and strategic objectives. In making their decisions, finance teams are required to take account of the CIPFA Prudential Code.

RATEABLE VALUE

The annual assumed rental of a hereditament, which is used for NDR purposes.

RELATED PARTIES

There is a detailed definition of related parties in IAS24. For the Council's purposes related parties are deemed to include the Council's members, the Chief Executive, its Directors and their close family and household members.

RELATED PARTY TRANSACTIONS

The Code of Practice on Local Authority Accounting requires the disclosure of any material transactions between the Council and related parties to ensure that stakeholders are aware when these transactions occur and the amount and implications of such.

RE-MEASUREMENTS

For a defined benefit pension scheme, the re-measurements comprise:

- (a) Changes in actuarial surpluses or deficits that arise because:
 - Events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses); or
 - The actuarial assumptions have changed
- (b) Return on plan assets excluding interest income which forms part of the pensions net interest expense

All sums paid to or receivable by an employee and sums due by way of expenses allowances (as far as those sums are chargeable to UK income tax) and the money value of any other benefits. Received other than in cash. Pension contributions payable by the employer are excluded.

RESERVES

The accumulation of surpluses, deficits and appropriations over past years. Reserves of a revenue nature are available and can be spent or earmarked at the discretion of the Council. Some capital reserves such as the fixed asset restatement account cannot be used to meet current expenditure.

RESIDUAL VALUE

The net realisable value of an asset at the end of its useful life.

RETIREMENT BENEFITS

All forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of employment

REVALUATION RESERVE

Records unrealised revaluation gains arising (since 1 April 2007) from holding Non-Current Assets.

REVENUE EXPENDITURE

The day-to-day expenses of providing services.

REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

Legislation allows some items to be funded from capital resources that under IFRS and normal accounting practice would be charged to Surplus or Deficit on Provision of Services.

REVENUE SUPPORT GRANT

A grant paid by Central Government to authorities, contributing towards the general cost of their services.

TEMPORARY BORROWING

Money borrowed for a period of less than one year.

TRUST FUNDS

Funds administered by the Council for such purposes as prizes, charities, specific projects and on behalf of minors.

USEFUL ECONOMIC LIFE (UEL)

The period over which the Council will derive benefits from the use of a fixed asset.

WORK IN PROGRESS (WIP)

The cost of work performed on an uncompleted project at the end of the financial year.

A summary of this document can be made available in your language and in alternative formats such as Braille, large print, electronic and audio-tape versions. Contact us at:

Email: central.finance@rotherham.gov.uk

‘If you or someone you know needs help to understand or read this document, please contact us’:

☎: 01709 254510

💻: central.finance@rotherham.gov.uk

Minicom: 01709 823536

Slovak

Ak vy alebo niekto koho poznáte potrebuje pomoc pri pochopení alebo čítaní tohto dokumentu, prosím kontaktujte nás na vyššie uvedenom čísle alebo nám pošlite e-mail.

Kurdish Sorani

کوردی سۆرانی

ههگهر تۆ یان كهسێك كه تۆ دهیناسی پێویستی بهیارمهتی ههیهیت بۆ ئهوهی لهم بهلگهنامه یه تێبگات یان بیهوینێتهوه، تکیایه پهیهوهندیمان پێوه بکه لهسهه ئهوه ژمارهیهی سهوهوهدا یان بهو ئیمهیه.

Arabic

عربي

إذا كنت أنت أو أي شخص تعرفه بحاجة إلى مساعدة لفهم أو قراءة هذه الوثيقة، الرجاء الاتصال على الرقم اعلاه، أو مراسلتنا عبر البريد الإلكتروني

Urdu

اُردو

اگر آپ یا آپ کے جاننے والے کسی شخص کو اس دستاویز کو سمجھنے یا پڑھنے کیلئے مدد کی ضرورت ہے تو برائے مہربانی مندرجہ بالا نمبر پر ہم سے رابطہ کریں یا ہمیں ای میل کریں۔

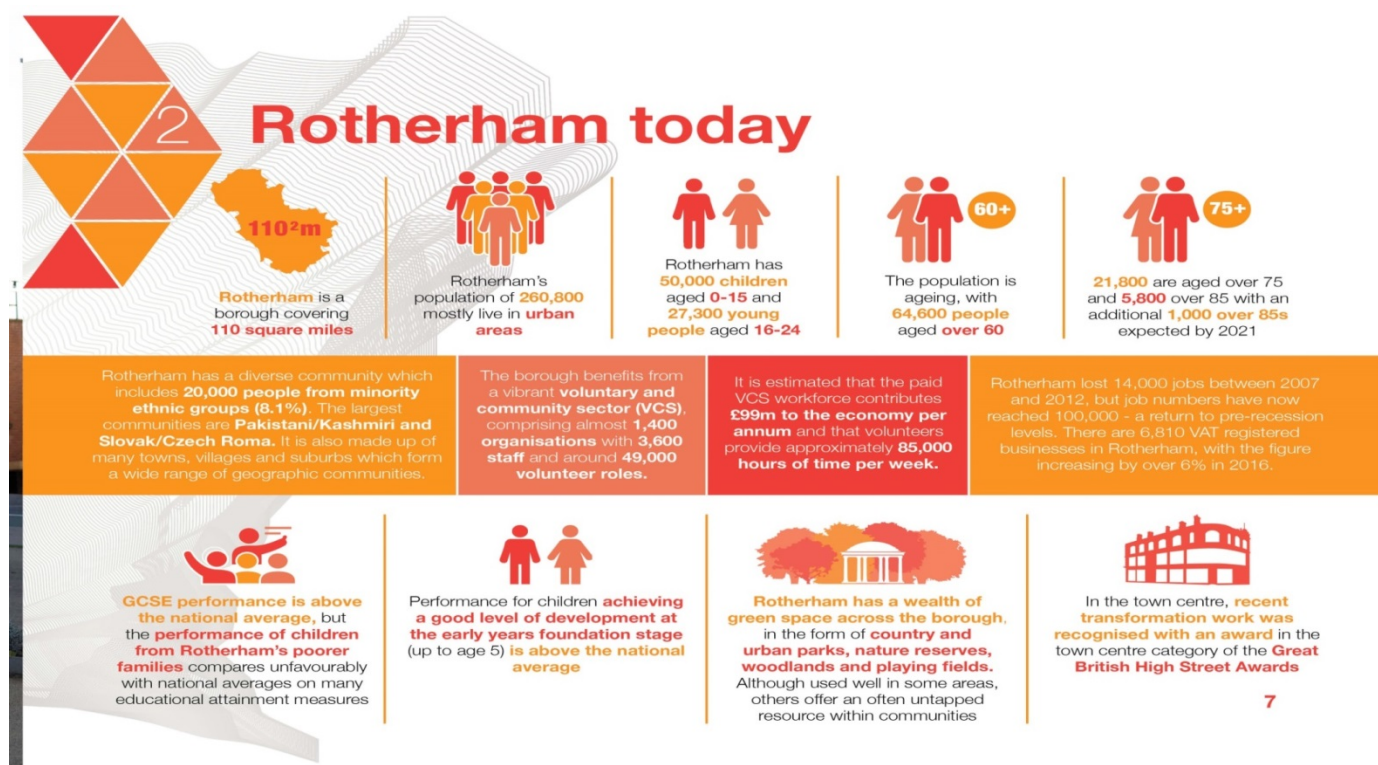
Farsi

فارسی

اگر جناب عالی یا شخص دیگری که شما او را می شناسید برای خواندن یا فهمیدن این مدارک نیاز به کمک دارد لطفاً با ما بوسیله شماره بالا یا ایمیل تماس حاصل فرمایید.

ROTHERHAM MBC

NARRATIVE REPORT 2017/18



Narrative Report 2017/18

Background

The Accounts and Audit (England) Regulations 2015 introduced new requirements for local authorities to publish a narrative report. The Regulations require local authorities to produce and publish a narrative report in respect of each financial year and comment on its financial performance and economy, efficiency and effectiveness in its use of resources over the financial year. The narrative report, which replaces the explanatory foreword in the Statement of Accounts, needs to be published along with the financial statements/Statement of Accounts and the Annual Governance Statement, and has to be prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. This requires that there should be a narrative report to accompany the financial statements and that this should be based on the information contained in the annual Statement of Accounts.

Introduction

This Narrative Report summarises what Rotherham Metropolitan Borough Council (RMBC) spent in 2017/18, how it was spent and what has been achieved in line with the Council's priorities and specific improvement agenda in the light of central Government intervention since February 2015. It provides a narrative context to the accounts by presenting a clear and simple summary of the Council's financial position and performance for the year and its prospects for future years.

The Narrative Report has been produced by the Council to better inform residents about how and where money is spent by the Council in the current specific context of its work towards strengthening its governance arrangements, improving the value for money of the services it provides and how it demonstrates leadership for local communities.

The narrative report sets out the Council's behaviours, values and standards for how it will conduct itself and sets out some of the key governance, operational and financial challenges it continues to face and seek to address in order to ensure it can operate in an open, accessible and transparent way.

Recent history

Rotherham MBC has experienced a turbulent period following the publication in February 2015 of a Corporate Governance Inspection (CGI) report which led to central Government issuing legislative directions to appoint a team of Commissioners to take overall executive decision-making at the Council.

In response to this, the Council implemented a strategy and as a result of this continues to make improvements to its services. This has resulted in the majority of its functions now handed back to Council control with the exception of Children's Services. However, in January 2018, its Children's Services were assessed as 'good' overall by OfSTED.

About Rotherham

Rotherham Metropolitan Borough covers 110 square miles, featuring a wide range of urban, suburban and rural environments with 70% being open countryside. One of four South Yorkshire districts, Rotherham is centrally placed within the Sheffield City Region. The Borough has a growing population of 260,800 which is also ageing, with almost one in four aged over 60 years. The population has become increasingly diverse, with one person in 12 (8.1% in the 2011 Census) belonging to a minority ethnic group (though this remains lower than the national average of around 13%).

Rotherham has a proud industrial heritage based on coal and steel but these have declined over recent decades and the borough has undergone a transition to a more modern economy.

Large scale job losses affected Rotherham during the last economic downturn but the employment rate is rising again. A little over 100,000 jobs are now based in Rotherham and 44,000 people travel to workplaces outside the borough.

Rotherham has excellent transport links to the rest of the country with easy access to the M1 & M18 motorways and a network of rail (including four stations within the borough) and bus services. There are five airports within 50 miles, including Robin Hood airport which is less than 20 miles away. Rotherham offers a good quality of life combined with a relatively low cost of living.

Despite a range of positive developments and opportunities the legacy of previous industrial decline continues to cause issues across Rotherham, which the Council continues to prioritise. Rotherham is ranked the 52nd most deprived district in England, mainly as a result of poor health, worklessness and low levels of adult qualifications (this is despite very positive performance in terms of attainment in Rotherham's schools).

Vision and Priorities

The Council Plan published in 2017 sets out the Council's vision which is:

Rotherham is our home, where we come together as a community, where we seek to draw on our proud history to build a future we can all share. We value decency and dignity and seek to build a town where opportunity is extended to everyone, where people can grow, flourish and prosper, and where no one is left behind.

To achieve this, the Council will work in a modern, efficient way, to deliver sustainable services in partnership with our local neighbourhoods, looking outwards yet focused relentlessly on the needs of our residents.

To this end the Council has set out four priorities or vision themes:

- *Every child making the best start in life*
- *Every adult secure, responsible and empowered*
- *A strong community in a clean, safe environment*
- *Extending opportunity, prosperity and planning for the future*

This is underpinned by a corporate commitment to provide value for money, customer-focused services, make the best use of the resources available to us, be outward looking and work effectively with partners; as part of demonstrating that RMBC is '*a modern, efficient council*' in line with the above vision.

Delivering the vision and priorities

During the period 2011/12 to 2017/18 the Council has made ongoing savings of £162m in response to the Government's austerity measures which have resulted in substantial reductions to local authority funding. In 2018/19 the Council is required to find a further £15.2m of savings to balance its budget. In responding to the cross cutting theme of being a 'modern and efficient Council', it will continue to examine service change and improvement work across the Council. One of the key drivers to this will be the Customer Services and Efficiency Programme, together with evaluation of social care services.

Whilst the Council is becoming smaller in size, it is focused on being bigger in influence. This means a changing role for the Council which involves stronger civic leadership, greater collaboration, integration and shared services with other public services.

A new social contract between residents and the Council that builds on individual and community assets to enable people to live more independently, for longer, with the support of their family, social networks and local neighbourhood resources must be developed. And it also means a clearer focus and prioritisation of resource – and in some cases stopping doing some of what the Council has traditionally done before.

Each Directorate has developed its own service plans to support delivery of the refreshed Council Plan for 2017/18 as well as the Medium Term Financial Strategy. A focus on continuous improvement, early intervention, cross-directorate working, implementing good practice and raising standards runs through all these service business plans.

Partnership working is also recognised across all services as being essential to the future of the borough; combining knowledge, ideas, expertise and resources to deliver tangible improvements, deliver efficiencies and economies of scale, and strengthen local communities.

Working in partnership

The Council is one of a number of organisations - including major public bodies (such as the police, health agencies, education and the fire and rescue service), local businesses and the voluntary and community sector - working together as "The Rotherham Together Partnership" to deliver improvements for local people and communities by combining their knowhow and resources.

The Partnership has launched the Rotherham Plan 2025: a new perspective, which sets out a framework for its collective efforts to create a borough that is better for everyone who wants to live, work, invest or visit here. It sets out some of the big projects, or "game changers", that partners will be focusing on until 2025:

- **Building strong communities** where everyone feels connected and able to actively participate, benefitting them and their communities
- **Raising skills levels and increasing employment** opportunities, removing the barriers to good quality, sustainable employment for local people
- **Integrating health and social care** to deliver joined up services for our residents that are easy to access
- Building on the assets that make Rotherham **a place to be proud of**
- Creating a vibrant **town centre** where people want to visit, shop and socialise

It forms part of a bigger picture which includes a number of partnership boards and less formal bodies that are developing plans and delivering activity in the borough.

The Council's Performance Management Framework and service plans

The Council's Performance Management Framework outlines the authority's performance management principles which are

- *Honesty and Transparency;*
- *Timeliness;*
- *Working together; and*
- *Council-wide responsibility*

In addition to these principles, the Council's performance framework is a critical means by which the Council can make use of performance information to challenge its effectiveness and work to improve services and make them more customer friendly. The framework is structured around a continuous improvement and performance management cycle and aims to provide an overview of the Council's performance management arrangements at every level of the organisation.

The framework is a key tool in ensuring that all staff and councillors understand how their individual contributions are critical in enabling the entire organisation to deliver effective services, continuous improvement and value for money for the people of Rotherham.

Service plans are a vital part of the Performance Management Framework, in addition to the over-arching Council Plan, setting out what the Council needs to deliver, focus on and improve; as well as how this will be achieved. The Framework provides the critical 'golden thread' to ensure that the Council is working effectively together, across all services, to achieve its strategic priorities.

The Council Plan 2017-2020 sets out the Council's overall vision and includes indicators and measures that will demonstrate its delivery. Quarterly reports on Council performance were presented to the Cabinet and Commissioners Decision-Making meeting during 2017/18. At the end of the fourth and final quarter (January to March 2018) 25 measures had either met or had exceeded the target set in the Council Plan. This represents 43.9% of the total number of indicators where data is available or where targets have been set. The direction of travel is positive for 32 (49.2%) of the indicators measured in this quarter.

Some of the Council's key achievements in 2017/18 were:

- A range of functions including economic growth, town centre, external partnerships, adult social care, performance management, asset management, human resources, waste collection and community safety returned to Council control;
- Adult Care Improvement Plan developed;
- Council Improvement Plan implemented;
- Rotherham recognised as the top performing local planning authority nationally in the publication of the Government's "Review of Local Planning Service" statistics;
- Rotherham announced as the fastest growing-city economy in Yorkshire and the eighth fastest growing economy in the UK;
- OfSTED report published and a "good" rating announced for its Childrens' Services;

Financial performance for the year

Included alongside this report is the Council's annual **Statement of Accounts**.

The Statement of Accounts summarises the Council's financial performance during the year ended 31st March 2018 and show its overall financial position at the end of that period. By law, all local authorities must produce a Statement of Accounts every year. They contain all the financial statements and disclosure notes required by statute and have been prepared in accordance with the Code of Practice on Local Authority Accounting for 2017/18 together with guidance notes as published by the Chartered Institute of Public Finance and Accountancy ('CIPFA').

The key sections included in the Statement of Accounts are:

Statement of Responsibilities

This sets out the respective responsibilities of the Council and the Strategic Director of Finance and Customer Services.

Comprehensive Income and Expenditure Statement

This account summarises the revenue costs of providing all council services and the income and resources received in financing the expenditure.

Movement in Reserves Statement

This statement shows the movement during the year of the different reserves held by the Council.

Balance Sheet

The Balance Sheet includes information on the Council's non-current and current assets, short term and long term liabilities and the balances at its disposal at the reporting date.

Cash Flow Statement

This statement provides a summary of the flow of cash into and out of the Council for revenue and capital purposes.

Notes to the Core Financial Statements

These notes expand on important points shown in the core statements and provide further explanation of movements and balances.

Housing Revenue Account

This account reflects the statutory obligation under the Local Government and Housing Act 1989 to show separately the financial transactions relating to the provision of local council housing.

Collection Fund Statement

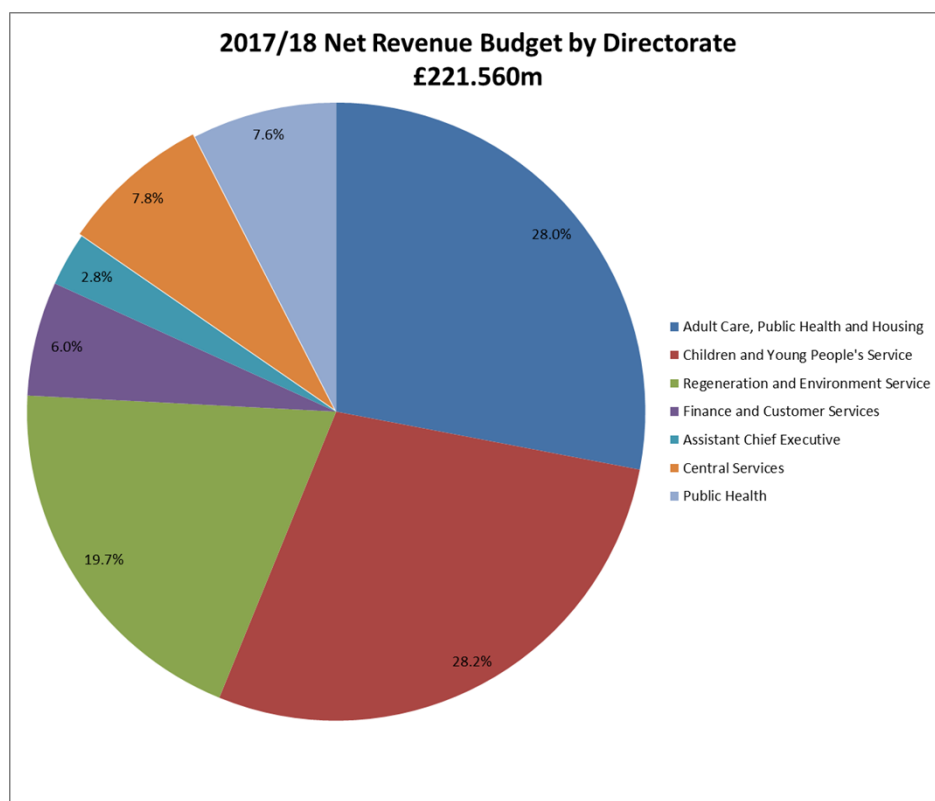
This statement summarises the transactions of Rotherham as a Billing Authority in relation to National Non-Domestic Rates and Council Tax, and also illustrates the way in which income has been distributed to precepting authorities (i.e. South Yorkshire Fire and Police).

Revenue & Capital Expenditure Outturns

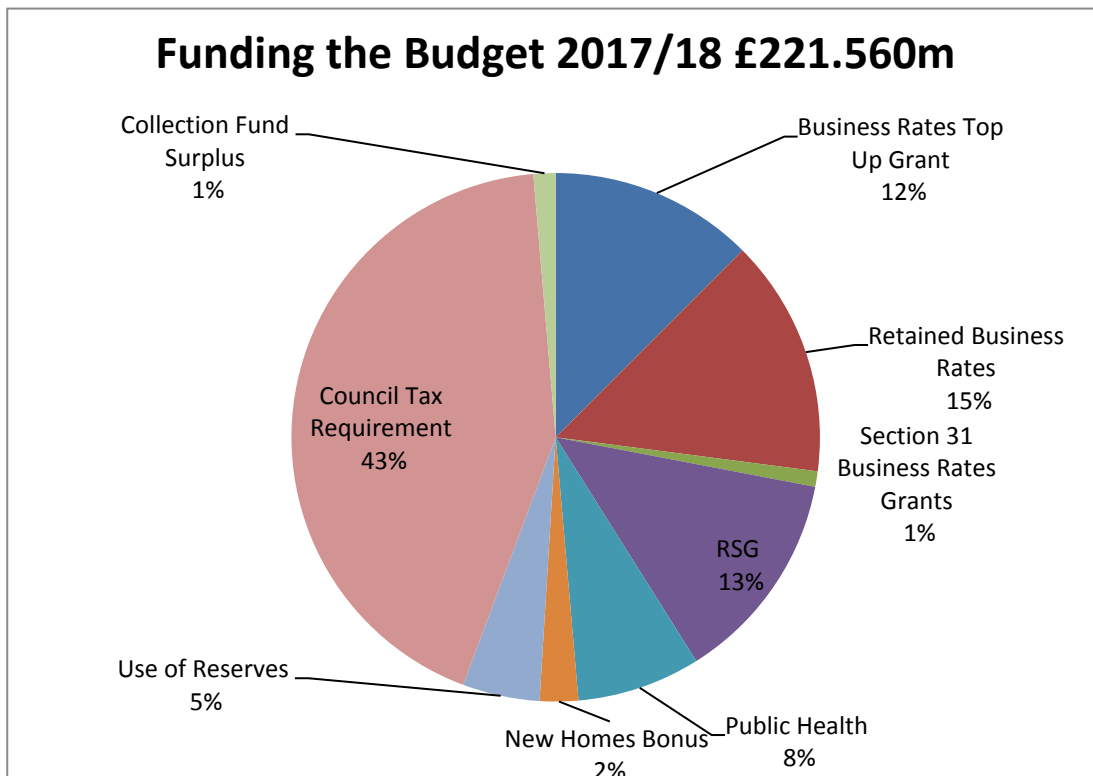
A summary of the Council's revenue and capital outturns for 2017/18 is included in the following paragraphs. Further details will be reported to the Cabinet/Commissioners Decision Making Meeting on the 9 July 2018. The agenda for this meeting can be accessed through the Council & Democracy page of the Council's website.

Revenue expenditure overview

Revenue expenditure covers the day-to-day running costs of the Council's services. The net revenue budget for 2017/18 was £221.560m (after taking account of income from specific grants and fees and charges) and was split by portfolio as follows;



The net expenditure was budgeted to be funded by:



Revenue Outturn

General Fund Services

The Council set an original revenue budget for General Fund services (excluding schools) of £221.560m. The actual outturn of £221.560m (including Public Health) was £3.237m less than the revised budget. The original budget for 2017/18 included the planned use of reserves of £10.467m, therefore only £7.230m will be used with the balance available to support future years budgets.

The principal reasons for the £3.237m underspend are:

- A £2.121m overspend within the Adult Care and Housing Directorate predominantly due to increased demand for services – direct payments and managed accounts, residential and nursing care and domiciliary care packages;
- An overspend of £7.404m on Children and Young People's Services which is largely due to significant increases in looked after numbers from that budget for including a substantial increase in emergency placements;
- A £0.047m underspend on Regeneration and Environment Services. Whilst there were pressures as a result of the adverse weather conditions and delays in the delivery of savings, management action was taken to mitigate this, which included restrictions to only essential spend and vacancy control;
- A £0.856m underspend within the Council's Finance & Customer Services and Assistant Chief Executive's Directorates predominantly due to the reduced costs of Council Tax and Business Rates income collection, additional income from the recovery of Housing Benefit overpayments, and vacancy control;

- A £11.759m underspend in Council-wide Services, mostly arising from an underspend on treasury management activity, re-profiling of PFI grant and payments and additional business rates grants.

The Council also reduced the charge to the revenue budget by £1.968m through a combination of use of the Government's newly introduced capital receipts flexibility and classification of some costs as capital expenditure within appropriate accounting rules.

Schools Outturn

In addition to General Fund balances and reserves the Council also holds £1.401m relating to School Delegated Budgets. As can be seen below, this represents an increase of £1.401m on the previous year.

2016/17 £m		2017/18 £m
0.022	Schools' Declared Savings	0.000
1.282	Unspent Schools' Budgets	1.401
1.304	Total	1.401

Housing Revenue Account Income and Expenditure Account

For 2017/18, the Income and Expenditure Account shows a surplus on the provision of HRA services of £7.131m. This is adjusted for items which are charged to the HRA under normal accounting practice but which are disregarded in determining the amount to be met by rent payers. These adjustments amounted to £4.615m and led to an overall surplus of £2.353m for 2017/18 which is principally due to savings on Supervision and Management costs; a reduction in the revenue funding of capital costs resulting from a reduced capital programme; a decrease in the provision for bad debts and an increase in income.

The balance on the HRA at the end of 2017/18 was £37.508m. Under self-financing, all the risks of managing housing rest with the Council. This means that the Council needs to maintain a higher level of HRA reserves in order to fund all expenditure relating to the management and maintenance of housing stock and mitigate any potential risks the Council now faces. These risks include the costs of impairment/revaluation of non-dwellings which is a real charge to the HRA and Welfare reform which brings additional risk of lower income collection and increased cost of collection.

Reserves

The Council manages its funds between two categories of reserves, usable reserves and unusable reserves.

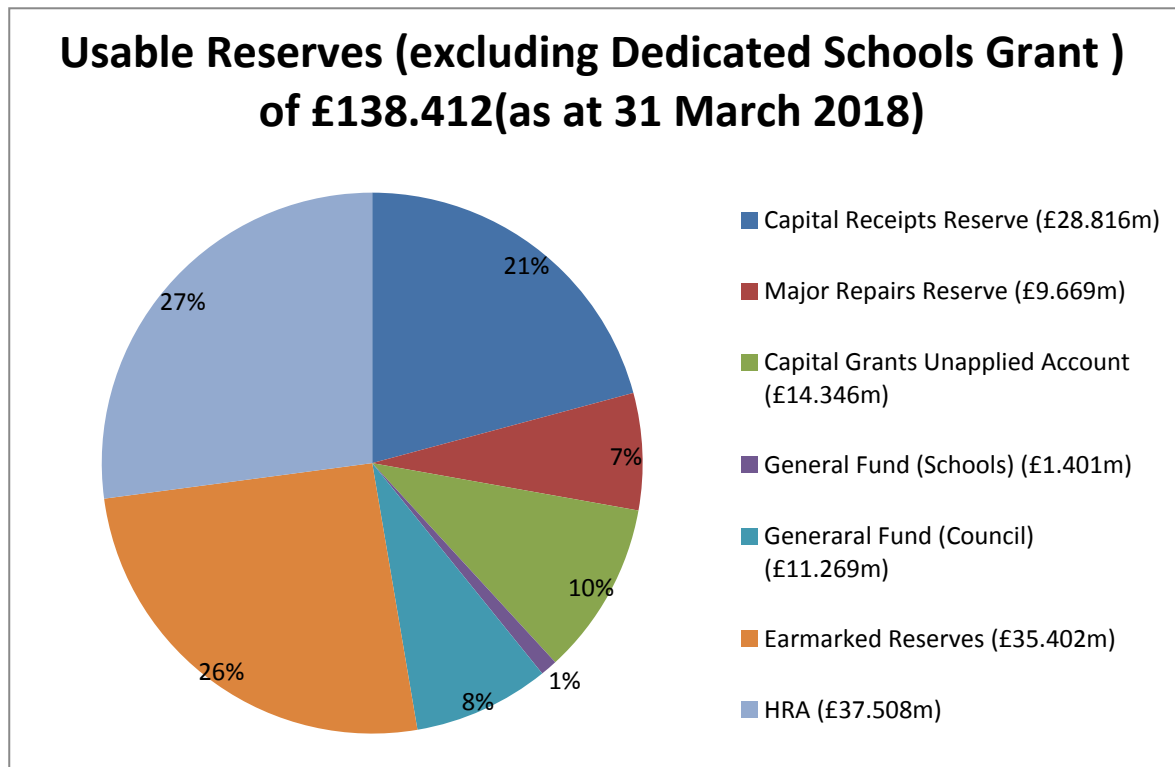
Unusable reserves are funds that cannot be used to provide services or used for day to day running costs. The unusable reserves hold funds that have 'unrealised gains or losses'. For example, we have assets such as land and buildings whose value changes

over time so these funds can only be ‘unlocked’ and turned into usable funds if the assets are sold.

Usable reserves are funds that the Council has set aside to provide services subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (e.g. the Capital Receipts Reserve may only be used to fund capital spend or repay debt, and cannot be used to support revenue directly).

As at 31st March 2018, the Council held £138.412.m of usable reserves (excluding Dedicated Schools Grant). Included within this balance are capital reserves of £52.831m which can only be used to finance capital expenditure or repay debt. They cannot be used to support revenue directly. There is currently a deficit balance on the Dedicated Schools Grant, which in accordance with Government policy, can be carried forward for the deficit to be addressed in future years. Childrens’ and Young Peoples Service have implemented a plan to recover the deficit in later years.

This leaves £85.581m of revenue reserves and balances. However, most of these are ring-fenced (HRA and school balances) or earmarked for specific purposes.



The uncommitted General Fund balance of £11.269m is considered to be a reasonable level of reserves to protect the Council against unforeseen events and the realisation of contingent liabilities.

A breakdown of the in-year movement on each of the usable reserves can be found in the Movement in Reserves Statement.

Capital expenditure overview

Capital spending is generally defined as expenditure on the purchase, improvement or enhancement of assets, the benefit of which impacts for longer than the year in which the expenditure was incurred.

Total capital expenditure in 2017/18 amounted to £52.705m and is analysed by Directorate as follows:

Directorate/Service	2017/18 £m
Children & Young People Services	5.881
Adult Care & Housing:	
- Housing Revenue Account	24.658
- Adult Social Services	4.265
Regeneration & Environment	15.455
Finance & Customer Services	2.446
Total	52.705

The capital expenditure was financed as follows:

	2017/18 £m
Borrowing need	8.672
Major Repairs Allowance (MRA)	15.632
Grants & Other Contributions	15.310
Capital Receipts	6.049
Internal Funds (e.g. Reserves, etc.)	7.042
Total	52.705

Major items of capital expenditure incurred are as follows:

	2017/18 £m
<u><i>Non Housing:</i></u>	
Carriageway Resurfacing	3.214
Street Lighting	1.473
Acquisition of Forge Island	0.022
Social Care IT System	0.012
Apportionable Expenditure CPTL/Transformation Project	1.483
Various academy schools PFI lifecycle costs	1.002
Physically Handicapped Adaptations (Private)	1.962
Furnished Homes	1.177
<u><i>Housing Investment Programme:</i></u>	
Physically Handicapped Conversions / Improvements (Public)	2.492
Replacement of Central Heating Systems	2.348
Voids Programme	2.322
Refurbishment of Council Stock	6.020
Strategic Housing Acquisitions	1.749
Site Cluster Braithwell	1.836

Treasury Management & Prudential Indicators

A summary of the Council's borrowing activities for 2017/18 is shown below. Further details of the Council's Treasury Management activities and prudential indicators will be reported to the Cabinet/Commissioners Decision Making Meeting on the 9 July 2018. The agenda for this meeting can be accessed through the Council & Democracy page of the Council's website.

The Council's borrowing activities are summarised as follows:

2016/17 £m	Long Term Borrowing	2017/18 £m
459.305	Balance as at 1 April	447.006
	<u>Plus:</u>	
40.000	New long-term borrowing	0.000
0.000	Long-term borrowing repaid	0.000
(52.299)	Re-classified as temporary borrowing (repayable in the following financial year)	(27.305)
447.006	Balance as at 31 March	419.701

2016/17 £m	Short Term Borrowing	2017/18 £m
17.292	Balance as at 1 April	52.299
	<u>Plus:</u>	
20.000	New temporary borrowing	118.000
52.299	Re-classified from long-term borrowing	27.305
89.591		197.604
(20.000)	Repayments in the year	0.000
(17.292)	Repayment of prior year's reclassified long-term borrowing	(52.999)
(37.292)		
52.299	Balance as at 31 March	145.305

Balance Sheet

The *Balance Sheet* presents the Council's financial position, i.e. its net resources at the financial year end. The balance sheet is composed of two main balancing parts i.e. its net assets and its total reserves. The net assets part shows the assets of the Council would have control of after settling all its liabilities. The balance of these assets and liabilities is then shown as being attributable to the various reserves of the Council.

Key changes in accounting policy

The Council's financial statements are prepared in accordance with International Financial Reporting Standards ('IFRS') and the CIPFA Code of Practice on Local Authority Accounting for 2017/18. The accounting policies adopted by the Council are compliant with IFRS and have been applied in preparing the financial statements and the comparative information.

There have been no accounting policy changes for 2017/18, however it should be noted that under the Accounts and Audit Regulations 2015, local authorities are required to publish their unaudited accounts by 31 May, a month earlier than the previous regulations,

whilst the audited financial statements require publication by 31 July, this being two months earlier than previous requirements.

Financial Outlook

Local authorities are facing a period of uncertainty regarding funding. The Council is currently in the third year of the four-year funding offer made to local authorities in 2015. Beyond 2019/20, local authorities do not have any certainty about the levels of funding available to them, until the outcome of the Government's Fair Funding Review is known. The Review is currently scheduled to be completed in time for implementation in April 2020, whilst the Government has confirmed its intention to allow local authorities to retain 75% of locally collected business rates in 2020/21.

Similar to other local authorities, the Council continues to face substantial cost pressures such as increases in demand-led services, the impact of the National Living Wage and inflation.

Equally, the Government continues to place restrictions on how local authority finances can be used through the Council Tax Excessiveness principles, requiring a local referendum if the proposed Council Tax increase is 2% or greater. For councils like Rotherham, with Adult Social Care responsibilities, the Government has increased this threshold by up to a further 3% for 2017/18 (but to not exceed an additional 6% in total over the 3 years 2017/18 to 2019/20) to encourage these councils to generate further local funding in recognition of the significant funding challenges facing this particular service area.

In meeting the year-on-year significant financial challenges presented, the Council has demonstrated a successful track record in delivering its financial plans. However, it is recognised that into the future this will only be sustainable if the Council maintains a clear focus on its Council Plan priorities and key outcomes and puts in place a new, different relationship with its citizens, residents and other stakeholders.

The updated Medium Term Financial Strategy (MTFS) considered by Council in February 2018, identified a funding gap of £30m for the period 2019/20 to 2020/21. This is in addition to the £15m savings required in 2018/19. The Council has established an approach to developing savings options to address the funding gap. This approach ensures that both investment and savings options are not considered in isolation and contribute to the principles and priorities as set out in the Council Plan and MTFS.

The Council's budget strategy has been to limit, as far as possible, the impact of funding cuts on front line services particularly on the most vulnerable residents, whilst looking to grow the local economy to maximise future income generation potential, as well as to boost the wellbeing and prosperity of Rotherham's residents.

The cross-cutting theme within the Council Plan to be a 'modern and efficient Council' is key to service change and improvement across the Council. The Customer Services and Efficiency Programme is one of the key drivers to this development alongside the specific work being carried out in the Social Care Services. The Council will continue to drive savings through continued modernisation and efficiency and improving value for money for

Rotherham residents, as it is not possible to commit to future delivery of the full range of services currently provided.

Signed.....

Judith Badger CPFA

Strategic Director of Finance and Customer Services

Finance and Customer Services Directorate

Riverside House

Main Street

Rotherham

S60 1AE

Date

KPMG LLP
1 St Peter's Square
Manchester
M2 3AE

30 July 2018

Dear Tim,

This representation letter is provided in connection with your audit of the financial statements of Rotherham Metropolitan Borough Council ("the Authority"), for the year ended 31 March 2018, for the purpose of expressing an opinion:

- i. as to whether these financial statements give a true and fair view of the financial position of the Authority as at 31 March 2018 and of the Authority's expenditure and income for the year then ended; and
- ii. whether the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

These financial statements comprise the Authority Movement in Reserves Statement, the Authority Comprehensive Income and Expenditure Statement, the Authority Balance Sheet, the Authority Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and the Collection Fund and the related notes (including the Expenditure and Funding Analysis).

The Authority confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Authority confirms that, to the best of its knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing itself:

Financial statements

1. The Authority has fulfilled its responsibilities, as set out in the Accounts and Audit Regulations 2015, for the preparation of financial statements that:
 - i. give a true and fair view of the financial position of the Authority as at 31 March 2018 and of the Authority's expenditure and income for the year then ended; and
 - ii. have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

The financial statements have been prepared on a going concern basis.

2. Measurement methods and significant assumptions used by the Authority in making accounting estimates, including those measured at fair value, are reasonable.
3. All events subsequent to the date of the financial statements and for which IAS 10 *Events after the reporting period* requires adjustment or disclosure have been adjusted or disclosed.
4. The effects of uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to this representation letter.

Information provided

5. The Authority has provided you with:
 - access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
 - additional information that you have requested from the Authority for the purpose of the audit; and
 - unrestricted access to persons within the Authority from whom you determined it necessary to obtain audit evidence.
6. All transactions have been recorded in the accounting records and are reflected in the financial statements.
7. The Authority confirms the following:

The Authority has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Included in the Appendix to this letter are the definitions of fraud, including misstatements arising from fraudulent financial reporting and from misappropriation of assets.

8. The Authority has disclosed to you all information in relation to:
 - a) Fraud or suspected fraud that it is aware of and that affects the Authority and involves:
 - management;
 - employees who have significant roles in internal control; or
 - others where the fraud could have a material effect on the financial statements; and
 - b) allegations of fraud, or suspected fraud, affecting the Authority's financial statements communicated by employees, former employees, analysts, regulators or others.

In respect of the above, the Authority acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular,

the Authority acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

9. The Authority has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
10. The Authority has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements, in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
11. The Authority has disclosed to you the identity of the Authority's related parties and all the related party relationships and transactions of which it is aware. All related party relationships and transactions have been appropriately accounted for and disclosed in accordance with IAS 24 *Related Party Disclosures*.

Included in the Appendix to this letter are the definitions of both a related party and a related party transaction as we understand them as defined in IAS 24 and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

12. The Authority confirms that:
 - a) The financial statements disclose all of the key risk factors, assumptions made and uncertainties surrounding the Authority's ability to continue as a going concern as required to provide a true and fair view.
 - b) Any uncertainties disclosed are not considered to be material and therefore do not cast significant doubt on the ability of the Authority to continue as a going concern.
13. On the basis of the process established by the Authority and having made appropriate enquiries, the Authority is satisfied that the actuarial assumptions underlying the valuation of defined benefit obligations are consistent with its knowledge of the business and are in accordance with the requirements of IAS 19 (Revised) *Employee Benefits*.

The Authority further confirms that:

- a) all significant retirement benefits, including any arrangements that are:
 - statutory, contractual or implicit in the employer's actions;
 - arise in the UK and the Republic of Ireland or overseas;
 - funded or unfunded; and
 - approved or unapproved,

have been identified and properly accounted for; and

- b) all plan amendments, curtailments and settlements have been identified and properly accounted for.

This letter was tabled and agreed at the meeting of the Audit Committee on 30 July 2018

Yours faithfully,

Chair of the Audit Committee

cc
Chief Financial Officer

Appendix to the Authority Representation Letter of Rotherham Metropolitan Borough Council: Definitions

Financial Statements

A complete set of financial statements comprises:

- A Comprehensive Income and Expenditure Statement for the period;
- A Balance Sheet as at the end of the period;
- A Movement in Reserves Statement for the period;
- A Cash Flow Statement for the period; and
- Notes, comprising a summary of significant accounting policies and other explanatory information and the Expenditure and Funding Analysis.

A local authority is required to present group accounts in addition to its single entity accounts where required by chapter nine of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

A housing authority must present:

- a HRA Income and Expenditure Statement; and
- a Movement on the Housing Revenue Account Statement.

A billing authority must present a Collection Fund Statement for the period showing amounts required by statute to be debited and credited to the Collection Fund.

A pension fund administering authority must prepare Pension Fund accounts in accordance with Chapter 6.5 of the Code of Practice.

An entity may use titles for the statements other than those used in IAS 1. For example, an entity may use the title 'statement of comprehensive income' instead of 'statement of profit or loss and other comprehensive income'.

Material Matters

Certain representations in this letter are described as being limited to matters that are material.

IAS 1.7 and IAS 8.5 state that:

“Material omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.”

Fraud

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation.

Error

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- a) was available when financial statements for those periods were authorised for issue; and
- b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Management

For the purposes of this letter, references to "management" should be read as "management and, where appropriate, those charged with governance".

Related Party and Related Party Transaction**Related party:**

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to in IAS 24 *Related Party Disclosures* as the "reporting entity").

- a) A person or a close member of that person's family is related to a reporting entity if that person:
 - i. has control or joint control over the reporting entity;
 - ii. has significant influence over the reporting entity; or
 - iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
- b) An entity is related to a reporting entity if any of the following conditions applies:
 - i. The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - iii. Both entities are joint ventures of the same third party.

- iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- v. The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
- vi. The entity is controlled, or jointly controlled by a person identified in (a).
- vii. A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- viii. The entity or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

Key management personnel in a local authority context are all chief officers (or equivalent), elected members, the chief executive of the authority and other persons having the authority and responsibility for planning, directing and controlling the activities of the authority, including the oversight of these activities.

A reporting entity is exempt from the disclosure requirements of IAS 24.18 in relation to related party transactions and outstanding balances, including commitments, with:

- a) a government that has control, joint control or significant influence over the reporting entity; and
- b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity.

Related party transaction:

A transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

Appendix 1: Unadjusted Audit Misstatements

Unadjusted audit differences (£'000)

No.	Income and expenditure statement	Movement in reserves statement	Assets	Liabilities	Reserves	Basis of audit difference
1	CR Loss on Disposal (1,507)	DR General Fund 1,507	DR PPE 1,507		CR CAA (1,507)	A school was thought to have converted to an academy prior to year end so was disposed of in the accounts. When all academy conversions were reviewed, it converted at 1 April 2018, so should have been in the accounts at year end. No other academies had been accounted for incorrectly
2			DR PPE 2,157		CR reval reserve (2,157)	The valuer had provided the finance team with the wrong valuation for one asset.
3	DR Loss on Disposal 0		CR PPE 0			Fixtures and fittings not fully removed from asset register when a school converts to academy status (net impact is nil, but gross book value is £539k)
4			Dr PPE 4,905		CR reval reserve (4,905)	Schools revalued in year had increased in value due to more accurate measurement of land area and separately revaluing boiler houses as these have a higher build cost than general school buildings. To assess the impact of this across the whole of the schools asset base, an estimate of the likely increase in value has been calculated based on a number of broad assumptions, such as the expected % increase in valuation for each year the asset hasn't been revalued. The figure shown here is at the top end of likely difference
5			CR PPE (2,949)		DR reval reserve 2,949	Only 20% of council dwellings are revalued in year, with the 80% using previous valuations as their base. As such, the valuation of the 80% not revalued in year does not fully reflect the expected valuation based on the movement in the other 20%.
6			CR PPE (1,699)		DR reval reserve 1,699	School assets are revalued as at 1 April each year, and no consideration had been given to the possible in year changes in value. Build costs have changed in year, which would impact the overall depreciated replacement costs of the assets.
7			DR PPE 2,314		CR reval reserve (2,314)	Land and Buildings are revalued as at 1 April each year, and no consideration had been given to the possible in year changes in value. Build costs have changed in year, which would impact the overall depreciated

					replacement costs of the assets.
8		CR PPE (7,435)		DR Reval reserve 7,435	Council Dwellings are revalued as at 1 April each year, and no consideration had been given to the possible in year changes in value. Property prices have changed in year, which would impact the overall value of council properties held by the Authority.
	CR (1,507)	DR 1,507	CR 0 (1,200)	DR (1,200)	Total impact of adjustments

As well as the above unadjusted audit differences, there is an unadjusted audit difference of £5.7m in relation to the pension assets. This variance is due to the actuary having to use estimates to provide their valuation in time for the draft accounts, but the actual figures being available by the time the audit was completed.

Summary Sheet

Audit Committee – 30 July 2018

Title

Annual Treasury Management Report and Actual Prudential Indicators 2017/18

Is this a Key Decision and has it been included on the Forward Plan?

No

Strategic Director Approving Submission of the Report

Judith Badger – Strategic Director of Finance & Customer Services

Report Author(s)

Rob Mahon – Finance Manager Financial Accounting
Finance & Customer Services Directorate
01709 254518 rob.mahon@rotherham.gov.uk

Ward(s) Affected

All

Summary

At the Cabinet and Commissioners' Decision Making Meeting on 9 July 2018, Members agreed to recommend the Audit Committee receive the Annual Treasury Management Report and Actual Prudential Indicators 2017/18.

The report considered by the Cabinet is appended to this covering paper in order to comply with the recommendation to forward the Annual Treasury Management Report and Actual Prudential Indicators 2017/18 for information.

Recommendation

That the Annual Treasury Management Report and Actual Prudential Indicators 2017/18 be noted for information.

List of Appendices Included

Report to Cabinet and Commissioners' Decision Making meeting – 9 July 2018
'Annual Treasury Management Report and Actual Prudential Indicators 2017/18'

Background Papers

N/A

Consideration by any other Council Committee, Scrutiny or Advisory Panel

Cabinet – 9 July 2018

Council Approval Required

No

Exempt from the Press and Public

No

Public Meeting
Cabinet and Commissioners' Decision Making Meeting

Summary Sheet

Council Report

Cabinet and Commissioners' Decision Making Meeting – 9th July 2018

Title

Annual Treasury Management Report and Actual Prudential Indicators 2017/18

Is this a Key Decision and has it been included on the Forward Plan?

No

Strategic Director Approving Submission of the Report

Judith Badger – Strategic Director of Finance & Customer Services

Report Author(s)

Rob Mahon – Finance Manager (Financial Accounting)

Ward(s) Affected

All

Summary

The Council received an annual treasury strategy in advance of the 2017/18 financial year at its meeting on 8th March 2017 and Audit Committee received a mid-year report at its meeting on 21st November 2017, representing a mid-year review of treasury activity during 2017/18.

The annual treasury management report is the final treasury report for 2017/18. Its purpose is to review the treasury activity for 2017/18 against the strategy agreed at the start of the year. The report also covers the actual Prudential Indicators for 2017/18 in accordance with the requirements of the Prudential Code.

The report meets the requirements of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities.

The Council is required to comply with both Codes through Regulations issued under the Local Government Act 2003.

Recommendations

That Cabinet :

- 1.1 Note the Treasury Management Prudential Indicators outturn position as set out in section 3 and Appendices A and B of the Annual Treasury Management Report for 2017/18.
- 1.2 Agree that the report is forwarded to Audit Committee for information

List of Appendices Included

Appendix A – Summary Prudential Indicators for Rotherham MBC

Appendix B – Summary Prudential Indicators for the Former South Yorkshire County Council

Background Papers

CIPFA – Code of Practice for Treasury Management in the Public Services Local Government Act 2003 (as updated)

CIPFA – Prudential Code (as updated)

Consideration by any other Council Committee, Scrutiny or Advisory Panel

Council Approval Required

No

Exempt from the Press and Public

No

Annual Treasury Management Report and Actual Prudential Indicators 2017/18

1. Recommendations

That Cabinet :

- 1.1 Note the Treasury Management Prudential Indicators outturn position as set out in section 3 and Appendices A and B of the Annual Treasury Management Report for 2017/18.
- 1.2 Agree that the report is forwarded to Audit Committee for information

2. Background

- 2.1 The Council's treasury management activities are regulated by a variety of professional codes and statutes and guidance:
 - The Local Government Act 2003 (the Act), which provides the powers to borrow and invest as well as providing controls and limits on this activity;
 - The Act permits the Secretary of State to set limits either on the Council or nationally on all local authorities restricting the amount of borrowing which may be undertaken (although no restrictions were made in 2017/18);
 - Statutory Instrument (SI) 3146 2003, as amended, develops the controls and powers within the Act;
 - The SI requires the Council to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities;
 - The SI also requires the Council to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services;
 - Under the Act the CLG has issued Investment Guidance to structure and regulate the Council's investment activities; and
 - Under section 238(2) of the Local Government and Public Involvement in Health Act 2007 the Secretary of State has taken powers to issue guidance on accounting practices. Guidance on Minimum Revenue Provision was issued under this section on 8th November 2007.
- 2.2 The Council complied with all of the above relevant statutory and regulatory requirements which limit the levels of risk associated with its treasury management activities. In particular, the adoption and implementation of the Prudential Code and the Code of Practice for Treasury Management means that its capital expenditure is prudent, affordable and sustainable. Treasury investment practices are governed by the primary objectives of security ahead of liquidity and then yield.

3. Key Issues

3.1 OVERVIEW

- 3.1.1 Indicators are set prior to the start of the financial year and reflect the known position at that time. Approved changes to the capital programme

and its funding throughout the financial year, together with variations in treasury management activity, mean that actual indicators for the year may vary from the projections made prior to the start of the financial year. However, by regularly monitoring and reporting revised estimates of these indicators the Council is able to ensure the impact is known and managed through the Medium Term Financial Strategy.

The actual prudential indicators for 2017/18 for Rotherham MBC, with comparators, are shown in the attached Appendix A. Background to these is provided in the following paragraphs.

3.1.2 Impact of the Council's Capital Expenditure and Financing 2017/18 - the Council expends capital expenditure on long term assets. This may either be:

- Financed immediately through capital receipts, capital grants etc.; or
- Financed over the life of the asset by use of Prudential Borrowing

Part of the Council's Treasury activities is to address this borrowing need, either through borrowing from external bodies, or utilising temporary cash resources within the Council. The wider treasury activities also include managing the Council's cash flows, its previous borrowing activities and the investment of surplus funds. These activities are structured to manage risk foremost, and then optimise performance. The primary objective is security ahead of liquidity and then yield or return.

3.1.3 The Council's underlying need to borrow is called the Capital Financing Requirement (CFR). This figure is a gauge for the Council's debt position. It represents 2017/18 and prior years' net capital expenditure which has not yet been paid for by revenue or other resources. Following changes to accounting regulations in 2009/10, the CFR also includes other long term liabilities which have been brought on balance sheet, for example, PFI schemes and finance lease assets.

The Non-HRA element of the CFR (excluding PFI schemes and finance lease assets) is reduced each year by a statutory revenue charge (the Minimum Revenue Provision - MRP). The CFR can also be reduced by:

- the application of additional capital resources (such as unapplied capital receipts); or
- charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

At the end of the financial year 2017/18 the closing CFR is broadly in line with that approved as the revised indicator for the year.

3.1.4 Treasury Position at 31 March 2018 - whilst the Council's gauge of its underlying need to borrow is the CFR, the Strategic Director of Finance and Customer Services and the Treasury function can manage the Council's actual borrowing position by either:

- borrowing to the CFR (excluding the impact of PFI and similar contracts); or

- choosing to utilise some temporary internal cash flow funds instead of borrowing (under-borrowing); or
- borrowing for future increases in the CFR (borrowing in advance of need).

For 2017/18 provision was made for the estimated borrowing need for the year to partly reduce the Council's 31 March 2017 under-borrowed position. However the Council has continued to take advantage of the current availability of short-term cash loans at very favourable rates and did not take out any new long-term loans in 2017/18.

There is no risk to the Council in following this strategy, as long-term loans can be taken out immediately at any point in time that the financial markets start to change and make long-term loans a more cost effective option.

Thus at 31 March 2018, the Council's borrowing (excluding PFI and similar schemes) and investments were as follows:

Council's Treasury Position 2017/2018

Net Borrowing	As At 31 March 2018 £m	As At 31 March 2017 £m
External Borrowing		
Public Works Loans Board (PWLB)	204.007	226.306
Market (e.g. Banks, Other Local Authorities)	243.000	243.000
Temporary Borrowing	118.000	30.000
	565.007	499.306
External Investments		
Debt Management Office	0.000	0.000
Banks	0.000	0.000
	0.000	0.000
External Borrowing	565.007	499.306
Net Borrowing - Excluding Temporary Borrowing	447.007	469.306
Capital Financing Requirement	665.219	656.984
Net Under-Borrowed	218.212	187.678

Against the Council's Capital Financing Requirement of £665.219m (excluding PFI and similar arrangements totalling £132.788m), the Council's outstanding net borrowing of £447.007m (excluding temporary loans) is lower than this requirement by approximately £218m due to the Council's approach of utilising temporary cash flow funds rather than taking out additional borrowings.

Total savings in the Treasury Management budget for 2017/18, arising from all treasury activity including cash-flow management, were £2.839m.

3.2 PRUDENTIAL INDICATORS AND COMPLIANCE ISSUES

Some of the prudential indicators provide either an overview or specific limits on Treasury activity:

3.2.1 Net Borrowing and the CFR - in order to ensure that borrowing levels are prudent over the medium term the Council's external borrowing net of investments must only be used for a capital purpose. Net borrowing should not therefore, except in the short term, have exceeded the CFR for 2017/18 plus the expected changes to the CFR for 2018/19 and 2019/20. The Council complied with this prudential indicator throughout 2017/18.

3.2.2 The Authorised Limit - the Authorised Limit is the "Affordable Borrowing Limit" required by S3 of the Local Government Act 2003. The Council does not have the power to borrow above this level. The Council maintained gross borrowing within its Authorised Limit, both excluding and including the impact of bringing PFI and similar arrangements on to the Council's Balance Sheet.

3.2.3 The Operational Boundary – The Operational Boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the Boundary is acceptable subject to the Authorised Limit not being breached. The Council maintained its borrowing position around its Operational Boundary.

3.2.4 Actual financing costs as a proportion of net revenue stream - This indicator identifies the trend in the cost of capital (borrowing and the cost of other long term obligations but net of investment income) against the Council's Budget Requirement (net revenue stream) for the General Fund and budgeted income for the HRA.

Both indicators show a reduction in the actual financing costs as a proportion of net revenue stream. The General Fund ratio reduced from 7.01 (original budget) to 6.14 (actual out-turn). This was as a result of a combination of the actual net revenue stream for the year being higher than originally forecast and the actual MRP charge being lower than the original budget. The HRA ratio reduced from 16.37 (original budget) to 15.99 (actual out-turn). This was due to the actual net revenue stream for the year being higher than originally forecast.

3.2.5 Incremental impact of Capital Investment Decisions – these two indicators are used to highlight the trend in cost arising from changes to the Council's capital investment plans:

- the impact on Council Tax Band D levels of changes to the General Fund capital programme, and
- the impact on weekly rent levels arising from changes in the housing capital programme

The incremental impact of capital investment decisions on the Band D Council Tax has reduced significantly from the original budget of £15.78 to £5.90. This is due to the actual borrowing required in the year (to fund capital expenditure) being substantially lower than anticipated. More capital grants have been available and these have been applied in funding the capital programme, thus replacing the need to borrow. Strategic capital financing decisions made at the financial year end also reduced borrowing by replacing planned prudential borrowing on short-life assets with use of capital receipts. The equivalent amount of prudential borrowing will then be utilised in later years on longer life assets. None of the HRA capital investment was financed by borrowing in 2017/18 and therefore there was no incremental impact of capital investment on HRA rent levels.

3.3 TREASURY MANAGEMENT INDICATORS

3.3.1 Limits on Activity

Upper limits on fixed and variable interest rates as at 31 March 2018 – these indicators identify the maximum limits for fixed interest rate gross debt and for variable interest rates based upon the debt position, net of investments. The Council remained within the limits set throughout 2017/18.

Maturity structure of fixed rate borrowing during 2017/18 – These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits. The Council remained within the limits set throughout 2017/18.

Maximum funds invested for more than 364 days – This limit is set to reduce the need for early sale of an investment and is based on the availability of funds after each year end.

3.3.2 Borrowing

New and Replacement Borrowing – No new long term loans were taken up during the year as the Council continued with its strategy of utilising the temporary borrowing market to manage the cash flow position.

During the year, temporary borrowing was taken up on 23 occasions with a mix of terms (ranging from 3 months to 6 months) to manage the Council's cash flow position. Of these short-term loans, 13 have been fully repaid in the year; with 10 remaining outstanding at the year end. One of the loans is a rolling deal, with a 1 month call, i.e. where the Council or lender can provide 1 months' notice to either change the rate or end the deal.

Rescheduling – No rescheduling took place in 2017/18 due to the continuing unfavourable market conditions.

Debt Repayment – Two loans totalling £20m matured during the year as shown in the table below. Part repayments of principal (£2.292m) continued on the Annuity and Equal Instalment of Principal (EIP) loans taken up in prior years.

Debt Repayments 2017/18

Lender	Principal £m	Type	Interest Rate	Average rate of interest
PWLB	10.000	Fixed rate	9.38%	
PWLB	10.000	Fixed rate	3.17%	
PWLB EIP	2.000	Fixed rate	3.46%	
PWLB EIP	0.130	Fixed rate	1.89%	
PWLB Annuity	0.162	Annual repayments	Various	
Total:	22.292			5.99%

The overall debt activity resulted in a decrease in the average interest rate on the Council's debt portfolio of 0.09%, from 4.17% to 4.08%. This has arisen as loans have matured (shown in the table above) and have been replaced with temporary borrowing.

3.3.3 Investments

The Council's investment policy is governed by DCLG Guidance, which was implemented in the annual investment strategy approved by Council on 8th March 2017. The investment activity during the year conformed to the approved strategy.

The Council maintained an average balance of £22.8m and received an average return of 0.14%. When compared to the local measure of performance the average return was marginally lower than the average 7 day LIBID rate for 2017/18 of 0.21%. For the period up until November 3rd 2017 this was due to the Council's main investment vehicle, the Government's Debt Management Office (DMO) dropping their rates to just 0.10%. Since this period the Council has generated returns on its investments in excess of the average 7 day LIBID rate. The Council has now set up access to a number of Money Market Funds to utilise for short-term deposits. These Funds are AAA rated securities which pay a better rate of interest than the DMO.

From December 2017 the Council ceased holding an investment balance with Handelsbanken following an announcement they would drop their interest rate below that of the DMO. Since then the Council has invested solely with the DMO at 0.25%.

3.4 FORMER SOUTH YORKSHIRE COUNTY COUNCIL

No new borrowing or rescheduling took place during 2017/18, whilst one loan of £39.709m matured during the year. Thus at 31 March 2018, external debt, all with the PWLB, totalled £37.000m. The average interest rate on the debt is 5.16%.

The Former South Yorkshire County Council had no investments at 31 March 2017, the same as at 31 March 2016.

The actual prudential indicators for the Former South Yorkshire County Council are shown in the attached Appendix B.

4. Options considered and recommended proposal

- 4.1 No options considered as the report outlines actual Treasury Management activity during 2017/18

5. Consultation

- 5.1 None required

6. Timetable and Accountability for Implementing this Decision

- 6.1 None

7. Financial and Procurement Implications

- 7.1 Treasury Management forms an integral part of the Council's overall financial arrangements.

8. Legal Implications

- 8.1 None, other than ensuring compliance with the Code of Practice for Treasury Management in the Public Services Local Government Act 2003 (as updated) and the Prudential Code (as updated).

9. Human Resources Implications

- 9.1 There are no Human Resource implications arising from the report.

10. Implications for Children and Young People and Vulnerable Adults

- 10.1 There are no implications arising from the proposals to Children and Young People and Vulnerable Adults.

11 Equalities and Human Rights Implications

11.1 There are no implications arising from this report to Equalities and Human Rights.

12. Implications for Partners and Other Directorates

12.1 There are no implications arising from this report for Partners and other Directorates.

13. Risks and Mitigation

13.1 Regular monitoring of treasury management activity throughout the financial year ensures that risks and uncertainties are addressed at an early stage and hence kept to a minimum.

14. Accountable Officer

Judith Badger – Strategic Director of Finance & Customer Services

Approvals Obtained from:-

Strategic Director of Finance and Corporate Services:- Judith Badger

This report is published on the Council's website or can be found at:-

<http://moderngov.rotherham.gov.uk/ieDocHome.aspx?Categories=>

APPENDIX A

Summary Prudential Indicators: Rotherham MBC

		Actual £m	Revised Estimate £m	Original Estimate £m
1	Capital Expenditure (excluding PFI & Finance lease liabilities)	52.705	81.785	69.638
2	Capital Financing Requirement (CFR) including PFI & similar liabilities:			
	General Fund	493.882	505.363	506.890
	HRA	304.125	304.125	304.125
	Total	798.007	809.488	811.015
3	Net Borrowing compared to CFR excluding PFI & similar liabilities:			
	Total Borrowing	447.007	523.776	523.776
	Total Investments	0.000	20.000	20.000
	Net Borrowing	447.007	503.776	503.776
	CFR	665.219	676.700	678.226
	Under-borrowing	218.212	172.924	174.450
4	Net Borrowing compared to CFR including PFI & similar liabilities:			
	Borrowing (from above)	447.007	523.776	523.776
	Borrowing (PFI etc.)	132.789	132.789	132.789
	Total Borrowing	579.796	656.565	656.565
	Total Investments	0.000	20.000	20.000
	Net Borrowing	579.796	636.565	636.565
	CFR	798.007	809.488	811.015
	Under-borrowing	218.211	172.923	174.450
5	Authorised Limit for external debt			
	Assumed Borrowing	709.184	709.184	709.184
	PFI & similar liabilities	135.555	135.555	135.555
	Authorised Limit	844.739	844.739	844.739
	Total Borrowing	579.796	656.565	656.565
	Borrowing Below Limit	264.943	188.174	188.174
6	Operational boundary for external debt			
	Assumed Borrowing	523.776	523.776	523.776
	PFI & similar liabilities	132.789	132.789	135.555
	Operational Boundary	656.565	656.565	659.331
	Total Borrowing	579.796	656.565	656.565
	Borrowing Below/(Above) Boundary	76.769	0.000	2.766
7	Maximum Funds invested > 364 days	0.000	10.000	10.000

			Revised	Original
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		Actual	Estimate	Estimate
		%	%	%
8	Ratio of financing costs to net revenue stream – Non HRA	6.14	6.02	7.01
9	Ratio of financing costs to net revenue stream – HRA	15.99	15.57	16.37
		£	£	£
10	Incremental impact of capital expenditure plans on the Band D Council Tax	5.90	15.78	15.78
11	Incremental impact of capital expenditure plans on housing rents levels	0	0	0

12	Maturity Structure of Fixed Rate Borrowing	Actual	Revised Upper Limit	Original Upper Limit
		%	%	%
	Under 12 Months	6.11	35	35
	12 months to 2 years	2.75	35	35
	2 years to 5 years	11.35	45	45
	5 years to 10 years	4.96	45	45
	10 years to 20 years	10.12	45	45
	20 years to 30 years	2.44	50	50
	30 years to 40 years	17.08	50	50
	40 years to 50 years	22.81	55	55
	50 years and above	22.38	60	60

13	Upper Limit on fixed interest rates based on fixed net debt	Actual	Revised Upper Limit	Original Upper Limit
		%	%	%
		79.64	100	100

14	Upper Limit on variable rates based on fixed net debt	Actual	Revised Upper Limit	Original Upper Limit
		%	%	%
		20.36	30	30

Summary Prudential Indicators: Former South Yorkshire County Council

		Actual £m	Revised Estimate £m	Original Estimate £m
1	Authorised Limit for external debt			
	Authorised Limit	86.709	86.709	86.709
	Total Borrowing	76.709	86.709	86.709
	Borrowing Below Limit	10.000	0.000	0.000
2	Operational boundary for external debt			
	Operational Boundary	86.709	86.709	86.709
	Total Borrowing	76.709	86.709	86.709
	Borrowing Below Boundary	10.000	0.000	0.000

3	Maturity Structure of Fixed Rate Borrowing	Actual %	Revised Upper Limit %	Original Upper Limit %
	Under 12 Months	2.19	25	25
	12 months to 2 years	44.59	50	50
	2 years to 5 years	53.21	100	100

4	Upper Limit on fixed interest rates based on fixed net debt	Actual %	Revised Upper Limit %	Original Upper Limit %
		100	100	100

5	Upper Limit on variable rates based on fixed net debt	Actual %	Revised Upper Limit %	Original Upper Limit %
		0	30	30

Summary Sheet

Council Report:

Audit Committee 30th July 2018

Title:

Annual Governance Statement 2017-18.

Is this a Key Decision and has it been included on the Forward Plan?:

No

Strategic Director Approving Submission of the Report:

Judith Badger (*Strategic Director of Finance and Customer Services*)

Report Author(s):

Simon Dennis (*Corporate Risk Manager*)

Assistant Chief Executive's Department

Extension 22114

simon.dennis@rotherham.gov.uk

David Webster (*Head of Internal Audit*)

Finance and Customer Services

Extension 23282

david.webster@rotherham.gov.uk

Ward(s) Affected:

All

Executive Summary:

On the 19th of June 2018, the Audit Committee reviewed the Council's draft Annual Governance Statement (AGS) for the 2017-18 financial year. The draft AGS was published alongside the Council's financial statements on 31st May 2018. This report briefly reminds the Committee of the process that was followed to construct the AGS and provides an update on changes made to the draft AGS to produce this final version. The full AGS is attached to this report as Appendix A.

Recommendations:

The Audit Committee is asked to:

- agree the final 2017-18 Annual Governance Statement subject to any comments from the external auditor KPMG and;
- note that following the Audit Committee's approval of the AGS, the Leader and Chief Executive will be asked to sign the statement to confirm the Council's approval of it.

Background Papers:

"Delivering Good Governance in Local Government", published by CIPFA (the Chartered Institute of Public Finance and Accountancy) and SOLACE (the Society of Local Authority Chief Executives) in April 2016.

Audit Committee Report 21st November 2017 "Code of Corporate Governance"

Audit Committee Report 19th June 2018 "Draft Annual Governance Statement 2016-17"

Consideration by any other Council Committee, Scrutiny or Advisory Panel:

No

Council Approval Required:

No

Exempt from the Press and Public:

No

Title:

Annual Governance Statement 2017-18.

1. Recommendations:

1.1 The Audit Committee is asked to:

- **agree the final 2017-18 Annual Governance Statement subject to any comments from the external auditor KPMG and;**
- **note that following the Audit Committee's approval of the AGS, the Leader and Chief Executive will be asked to sign the statement to confirm the Council's approval of it.**

2. Background

- 2.1 The Accounts and Audit Regulations require the Council to produce an Annual Governance Statement (AGS) alongside its Statement of Accounts in each financial year. The AGS is a statutory document which explains the processes and procedures in place to enable the Council to carry out its functions effectively. Local Authorities are required to prepare an AGS in order to report publicly on the extent to which they comply with their own Local Code of Governance. The draft 2017-18 AGS was published on 31st May 2018 and the final will be published by 31st July 2018.
- 2.2 The Committee will recall that a process to gather assurances and evidence to support the AGS was led by the Corporate Governance Group, chaired by the Strategic Director Finance and Customer Services. The group included the Head of Internal Audit, the Corporate Risk Manager and the Assistant Director, Legal Services.
- 2.3 The assurance and evidence process produced a strong evidence base and enables the Council to have confidence in the statements that it made in the AGS. Since publication of the draft version, a small number of updates have been included to produce the final AGS which is attached to this report as Appendix A.

3. Process to construct the 2017-18 AGS

- 3.1 In constructing the AGS for 2017-18, the Council has assembled sufficient evidence to support the statements that it has made. To achieve this, like last year, each Strategic Director was asked to oversee a self-assessment of governance in their Directorate. This comprised the completion of a self-assessment form based on the Principles and Sub-principles in the Local Code by each Assistant Director as well as a review and update of the detailed issues raised in the 2015-16 AGS. Each Strategic Director was also required to sign a

Statement of Assurance which was based on the information arising from their review of current and previous governance issues.

- 3.2 Each Directorate returned the required Statement of Assurance and supporting documents and the Corporate Governance Group reviewed the evidence contained in them. Additionally, the group considered which issues are of sufficient significance to require reporting in the AGS.
- 3.3 The group then produced the AGS itself, which was reviewed by SLT, the Strategic Director Finance and Customer Services, the Assistant Director Legal Services and the Chief Executive.

Updates since publication of the draft AGS

- 3.4 The draft AGS was published on 31st May 2018 and was considered by this Committee on 19th June. Following publication, the AGS has been updated as a result of developments since 31st May. At the point of writing this report, final comments are awaited from the external auditor, KPMG, and the AGS will need to be updated to reflect any information received from them before the Committee meeting.
- 3.5 The main changes to the AGS to produce the final version are:
- Paragraphs 3.10 to 3.13 have been added to reflect the publication on 14th June 2018 of the Commissioner's 36 and 39 month progress reviews and the outcomes of the independent Health Check.
 - Section 7 has been updated to include publication of the reviews mentioned in paragraphs 3.10 to 3.13.
 - Paragraphs 4.15 and 4.17 have been updated to reflect the latest position with the external audit at the time of writing this report

Overall conclusion

- 3.6 The AGS outlines the governance arrangements in place throughout the year and how their effectiveness was monitored.
- 3.7 The Committee will note that the AGS at Appendix A reaches an overall conclusion that "*...the Council demonstrated good governance and met its Best value duty throughout the year*". The AGS recognises the continued improvements made in the Council's performance throughout the financial year but also highlights a number of areas for further developments in 2018/19.

Next Steps

3.8 The Audit Committee are invited to comment on any aspect of the Annual Governance Statement attached to this report at Appendix A.

3.9 The AGS will be published by 31st July, taking account of any further comments made by the Audit Committee and the external auditor.

4. Options considered and recommended proposal

4.1 This paper considers the final AGS for 2017/18 and provides feedback on the progress to date. As a result, no specific options have been considered.

5. Consultation

5.1 All Strategic Directors have been asked for their input into the AGS process through the submission of signed Statements of Assurance.

5.2 The final AGS has been reviewed by the Strategic Director Finance and Customer Services, the Assistant Director Legal Services and the Chief Executive.

6. Timetable and Accountability for Implementing this Decision

6.1 The Corporate Governance Group will ensure that the final AGS is published by 31st July 2017.

7. Financial and Procurement Implications

7.1 There are no direct financial implications other than the requirement to publish the AGS alongside the Council's Annual Finance Statements. There are no procurement issues.

8. Legal Implications

8.1 There are no direct legal implications arising from this report, although it is a statutory requirement for an AGS to be published alongside the Council's Financial Statements. This report endeavours to set out how the Council intends to comply with that requirement.

9. Human Resources Implications

9.1 There are no Human Resources implications directly associated with the paper.

10. Implications for Children and Young People and Vulnerable Adults

- 10.1 Any implications for the Children and Young People's Service and Adults Services are set out in the AGS attached at appendix A.

11. Equalities and Human Rights Implications

- 11.1 There are no direct human rights or equalities implications in this report.

12. Implications for Partners and Other Directorates

- 12.1 There are no direct implications for our Partners in this report. The AGS has been constructed following consultation with all Directorates. Individual directorates are responsible for implementing action to respond to weaknesses identified in the AGS.

13. Risks and Mitigation

- 13.1 The AGS is expected to be completed each year to sit alongside the Financial Statements. The risk of failing to produce an AGS has been considered and, although this is a remote risk resources are in place to ensure that a complete and accurate AGS is delivered on time.

14. Accountable Officer:

- 14.1 Judith Badger (*Strategic Director of Finance and Customer Services*)

Approvals Obtained from:-

Strategic Director of Finance and Customer Services: Judith Badger

Director of Legal Services: Dermot Pearson

Simon Dennis
Corporate Risk Manager

David Webster
Head of Internal Audit

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ROTHERHAM METROPOLITAN BOROUGH COUNCIL

Annual Governance Statement 2017/18

ROTHERHAM MBC ANNUAL GOVERNANCE STATEMENT 2017/18

1 SCOPE OF RESPONSIBILITY

- 1.1 Rotherham Metropolitan Borough Council (the Council) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness (the Best Value duty).
- 1.2 In discharging its overall responsibilities, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and ensuring there are effective arrangements in place for the management of risk.
- 1.3 The Council has a Code of Corporate Governance in line with the principles of the CIPFA/SOLACE Framework: *Delivering Good Governance in Local Government*. The Code can be found at www.rotherham.gov.uk
- 1.4 This Annual Governance Statement meets the requirements of the Accounts and Audit Regulations 2015 in relation to the publication of an Annual Governance Statement.

2 THE PURPOSE OF THE GOVERNANCE FRAMEWORK

- 2.1 The governance framework comprises the systems, processes, values and behaviours by which the Council is directed and controlled. It also comprises the activities through which the Council accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.
- 2.2 The system of internal control is a significant part of the governance framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore provide proportionate and not absolute assurance of effectiveness. The system of internal control is based on an on-going process that is designed to:
 - identify and prioritise the risks to the achievement of Council policies, aims and objectives

- evaluate the likelihood of those risks being realised and assess the impact should they be realised, and
- manage the risks efficiently, effectively and economically.

3 THE COUNCIL'S CURRENT GOVERNANCE ARRANGEMENTS

- 3.1 Following Directions issued by the Secretaries of State for Education and Communities and Local Government on 26th February 2015, the Government appointed Commissioners to take on all executive responsibilities at the Council and responsibilities relating to licensing^{*1}. By the start of the 2017/18 financial year, three Commissioners remained following the departure of Sir Derek Myers on 31st March 2017.
- 3.2 Throughout the 2017/18 financial year the Commissioner team was led by Lead Commissioner Mary Ney. The Lead Commissioner was assisted throughout the year by the Children's Social Care Commissioner, Commissioner Patricia Bradwell and Commissioner Julie Kenny CBE.
- 3.3 The Council's general governance arrangements include a range of policies, procedures and activities that are designed to be consistent with the expectations for public sector bodies. Throughout the financial year these arrangements have been developed further as the Commissioner team and the scale of intervention has changed. Section 4 makes reference to the operation of general governance arrangements in place at the Council and includes annual statutory assessments made by Internal and External Audit.
- 3.4 During 2017/18 the Corporate Plan was refreshed and renamed as the Council Plan. This Council Plan set out the direction and priorities for the whole organisation for the year ahead. The vision for the borough was defined as

"Rotherham is our home, where we can come together as a community, where we seek to draw on our proud history to build a future we can all share. We value decency and dignity and seek to build a town where opportunity is extended to everyone, where people can grow, flourish and prosper, and where no one is left behind. To achieve this as a council we must work in a modern, efficient way, to deliver sustainable services in partnership with our local neighbourhoods, looking outwards, yet focused relentlessly on the needs of our residents".

¹ The Commissioner for Children's Social Care Services had been in place since October 2014 having been appointed initially by the Secretary of State for Education following the failings identified by Ofsted.

3.5 To that end four priorities were set which were:

- Every child making the best start in life
- Every adult secure, responsible and empowered
- A strong community in a clean, safe environment
- Extending opportunity, prosperity and planning for the future

Each of these priorities was underpinned by a fifth priority, “A modern, efficient Council”. The plan detailed how each directorate contributes to those priorities and included performance measures to be met.

- 3.6 By the start of the Financial Year, the majority of powers and accountabilities had been restored to Councillors by the Secretary of State for Communities and Local Government. These services were listed in last year’s Annual Governance Statement.
- 3.7 Most remaining functions (community safety; waste management; performance management; asset management; and human resources) were recommended for return in July 2017. A revised Direction was issued on 12th September 2017 that returned most services to the Council other than those relating to children’s safeguarding and all other children’s social care services. The Commissioners also retain responsibility for deciding on the appointment and dismissal of statutory officers (the Head of Paid Service, Section 151 Officer and Monitoring Officer).
- 3.8 In addition, for adult social care and the Council’s partnership with the NHS and the domestic abuse aspect of community safety, the relevant Commissioner can, if they consider a Cabinet decision is particularly significant and carries notable risk in terms of the best value duty, make a formal written recommendation to the relevant Executive Councillor that must be followed.
- 3.9 Ofsted carried out a re-inspection of services for children in need of help and protection, children looked after and care leavers in November 2017. This re-inspection, which was published in January 2018, rated the Council’s service as “good”.
- 3.10 Additionally, in February 2018, the Commissioners commissioned an independent check (a “Health Check”) of the Council as part of the move through the final phases of the intervention. This Health Check was reported to the Secretary of State on 21st March 2018 and was published on 14th June 2018. Its purpose was to provide an independent critique on whether the intervention had served its purpose and whether the Council was now fit to continue its improvement journey

without Commissioner oversight. The Commissioner Team set the standard for assurance and required the Council to demonstrate to the Health Check team that it was sufficiently self-aware and tenaciously committed to continuous improvement without the oversight of Commissioners. In particular, it needed to demonstrate that the leadership of the Council could show their commitment and understanding of their roles in ensuring that the children of Rotherham are kept safe and thrive.

3.11 The Health Check reported that, overall, the Council had demonstrated that it is presently fit to continue its improvement journey without Commissioner oversight. It reported that “the speed and extent of the improvements delivered since 2015 are impressive.” The report recognised that the next stages of improvement will be challenging but it expressed confidence that the right foundations were in place and were sufficiently strong.

3.12 For those functions still subject to additional Directions (Domestic Abuse and Adult Social Care), the Health Check found:

- Assurance of the Council’s improved capability in Adult Social Care and its preparedness to take forward its improvement agenda without ongoing Commissioner advice and;
- A high degree of assurance in Domestic Abuse Services, having found excellent partnership working and examples of best practice.

3.13 As a result of the Health Check, the Commissioner Team has recommended to the Secretary of State that the government intervention in Rotherham can now be concluded. On the 23rd of July 2018, the Secretary of State announced that he is “minded” to return the last remaining powers back to the Council, remove Commissioners, and require a final review to be held early next year. The Secretary of State will now consider any representations before making a final decision on whether to return these functions.

4 GENERAL CORPORATE GOVERNANCE ARRANGEMENTS AND THEIR OPERATION DURING THE YEAR

4.1 As noted in paragraph 3.3, the Council’s Governance framework includes a range of policies, procedures and activities that are designed to be consistent with the expectations for public sector bodies. They are drawn together by the Council’s Code of Corporate Governance which was refreshed and approved by the Audit Committee in November 2017.

Elements of an effective Governance framework

- 4.2 The table below sets out the key elements of an effective Governance framework, all of which were in place in the Council throughout the 2017/2018 year.

Council Committee or group	Governance Function
Full Council	Approves the Council Plan and Improvement Plan Endorses the Constitution Approves the policy and financial frameworks
Cabinet	Primary decision making body of the Council Comprises the Leader of the Council and Cabinet members who have responsibility for specific areas
Audit Committee	Considers all issues relating to audit matters, both internal and external. Monitors and reviews the effectiveness of risk management systems, including systems of internal control
Standards and Ethics Committee	Promotes high standards of conduct by elected members and monitors the operation of the Members' Code of Conduct
Overview and Scrutiny Committees	Review and scrutinise the decisions and action taken in connection with any functions of the Council Make reports or recommendations to the Council or Cabinet with respect to the discharge of any functions of the Council
Chief Executive, Strategic and Assistant Directors	Set governance standards Lead and apply governance standards across the Council
Internal Audit	Performs independent and objective reviews of all areas of the Council Undertakes fraud and irregularity investigations and proactive anti-fraud work

- 4.3 The table below indicates the detailed governance arrangements in place during the year and their operation, with reference to the principles set out in both the CIPFA/SOLACE *Delivering Good Governance* Guidance applicable to 2017/18 and the Council's own Code:

Principle	Arrangements at RMBC
Principle A - Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law	The Council has a constitution and a supporting set of rules and procedures that govern its activities in accordance with legislative requirements. All key decisions require review by Legal and Financial Services to ensure all relevant requirements and considerations are taken account of. The Council has arrangements for encouraging the reporting of suspected wrong-doing. The Council's Whistle-blowing policy

	<p>has been revised in line with current guidance.</p> <p>The Council has a Member/Officer Protocol which was adopted by the Council in October 2016. It is communicated to all Members, and is emphasized through training on the Code of Conduct which forms part of the induction programme for Members and their continuous development programme. Codes of Conduct for Members and Officers define conflicts of interest and how they should be treated.</p> <p>The Code of Practice, Officer/Member Protocol, constitution and Whistle-blowing Policy can be found at www.rotherham.gov.uk</p>
Principle B - Ensuring openness and comprehensive stakeholder engagement.	<p>The Council is committed to openness and acting in the public interest. The current Council Plan (covering the period to March 2020) is based on a series of public consultation exercises which resulted in a new vision for the borough which was approved 28th October 2015. The Council Plan can be found at www.rotherham.gov.uk</p> <p>Delivery of this vision is embedded in day-to-day activities across the Council and is monitored through the performance management framework.</p> <p>The Local Government Association conducted a citizen's satisfaction survey on behalf of the Council during 2017 – the results of which have been reported through the performance management framework.</p> <p>Ongoing work is taking place on embedding greater levels of community and stakeholder engagement through the Council's Communications Strategy. Work is also taking place to reform the Council's Neighbourhoods and Engagement arrangements. The Rotherham Together Partnership is well established and partner organisations have an opportunity to provide the Chair role in future years. The new Partnership strategy, The Rotherham Plan 2025, was published in early 2017. The Plan can be found at www.rotherham.gov.uk.</p>
Principle C - Defining outcomes in terms of sustainable economic, social, and environmental benefits.	<p>The Council has had a Council Plan in place throughout 2017/18 which set out the principal outcomes required in the course of the financial year. This has been monitored throughout the year in line with the Council's Performance Management Framework. This involves monthly and quarterly consideration of the performance indicators, the latter process being in public.</p> <p>Sitting alongside the Council Plan are numerous other strategies which set out more detail around the required outcomes. These include the Rotherham Housing Strategy,</p>

Rotherham Economic Growth Plan, Safer Rotherham Strategy, Rotherham Local Plan Core Strategy, Municipal Waste Management Strategy and the Rotherham Health and Wellbeing Strategy.

Each Service area has a Service Plan which links to both the Council Plan and the relevant Strategies and these Plans are reviewed by individual Services.

In addition to the above, the Council's Risk Management framework links to the Service Plans and enables Leadership Teams to monitor the risks around each key element of the overall plan that they are accountable for.

Principle D -
Determining the interventions necessary to optimise the achievement of the intended outcomes.

As set out above, the Council Plan and associated Service Plans form the basis for all interventions planned by the Council. All Business decisions are accompanied by a business case and options appraisal and the corporate report templates require information explaining the legal and financial implications of decisions.

Delivery of the Plans is monitored through Quarterly Monitoring Reports and Contract Monitoring Reports and the Council has Performance Reports which are aligned to the Council Plan priorities.

All decisions need to be taken in the context of the Medium Term Financial Strategy, the Capital Programme and the Revenue budget process.

Principle E -
Developing the entity's capacity, including the capability of its leadership and the individuals within it.

The Council has been working with the Local Government Association to provide peer mentors for all Cabinet Members and Opposition Group Leaders during 2017/18 and this will continue into future years. Personal development planning is also now available to all Members and take up has now reached 100%.

The permanent Strategic Leadership Team structure is now embedded and almost all Assistant Director posts are permanently filled.

Job descriptions are in place for all posts throughout the Council and these are supported by recruitment and appointment policies and procedures. There is a comprehensive training programme for officers linked to a Workforce Development Plan and the Corporate Workforce Strategy. Each Council employee has a Personal Development Plan which links to their service's Service Plan.

	<p>Capacity to respond to increasing demand has been identified in a number of front line services. Plans are being developed to deliver service transformation across the Council which will enable these capacity pressures to be mitigated.</p>
<p>Principle F - Managing risks and performance through robust internal control and strong public financial management.</p>	<p>The Council has a Risk Management Policy and Guide which is embedded and reviewed annually. This Policy requires the Strategic Risk Register to be reviewed at regular intervals by the Strategic Leadership team and for Directorate and Service level risk registers to be reviewed monthly. Corporate report templates all contain 'risk implications' sections and Risk Management also links closely to Service Plans. The Audit Committee reviews risks and the Risk Management process at every meeting.</p> <p>Performance Reports are aligned to Council Plan priorities and are considered in public and are also linked to the Risk Policy.</p> <p>The Council has an Anti-Fraud and Corruption Policy and Strategy which is frequently reviewed and an Internal Audit function which issues an annual opinion on governance, risk management and internal control. The council also has a Corporate Information Governance Group which is responsible for improving its approach to securing information. This group is supported by a dedicated Information Governance team as well as ongoing monitoring of Data Protection Act / Freedom of Information compliance.</p>
<p>Principle G - Implementing good practices in transparency, reporting, and audit to deliver effective accountability.</p>	<p>The Council has a Corporate Communications Strategy and this includes the publication on its website of details around budgets and spending, Senior Officer remuneration, Performance Information and reports, the Annual Report and Statement of Accounts and the Annual Governance Statement.</p> <p>The Local Code of Corporate Governance is refreshed annually in accordance with CIPFA/SOLACE principles and any documents proposed for publication are scrutinised and approved by Senior Leadership Team, Cabinet and Audit Committee prior to publication.</p> <p>The Head of Internal Audit presents an annual report to Audit Committee to inform members of Internal Audit activity that has taken place during the year and the Audit Committee meets five times a year and receives reports from both Internal and External Audit.</p> <p>The Council is subject to regular inspections from regulatory bodies, including Ofsted, Care Quality Commission etc. The outcomes of these inspections, together with the Council's responses are made available via the website</p> <p>An appropriate financial control and reporting framework for the</p>

Council is in place, with all aspects of revenue and capital spending compared to budget plans being routinely reported throughout the year to the officer Strategic Leadership Team, Cabinet and Commissioners.

Monitoring the effectiveness of Governance Arrangements

4.4 The Council annually reviews the effectiveness of its governance framework including the system of internal control. The ten key elements of assurance that inform this governance review are:

- 1) The Chief Executive, Strategic and Assistant Directors whose role includes:
 - Corporate oversight and strategic planning
 - Annual corporate governance assessment which is informed by annual Assurance Statements from each Strategic and Assistant Director
 - Implement and monitor regulatory and other governance protocols
- 2) Monitoring Officer who has oversight of:
 - Legal and regulatory assurance
 - Monitors the operation of the Constitution
- 3) The Section 151 Officer who has oversight of the proper administration of the Councils financial affairs
- 4) Information Governance, which is monitored by:
 - The Designated Senior Information Risk Owner (SIRO)
 - Data Protection procedures
 - Information Security and Records Management procedures
- 5) The Overview and Scrutiny Management Board, who carry out policy review and challenge as well as have an overview and carry out scrutiny of specific topics
- 6) The Audit Committee which;
 - Reviews the effectiveness of internal and external audit
 - Considers the adequacy of the internal control, risk management and governance arrangements
 - Carries out a Self-assessment
- 7) Internal Audit who produce;
 - An Annual opinion on the adequacy and effectiveness of internal controls, risk management and governance arrangements
 - An Internal audit plan, reports and action tracking reported to Audit Committee

8) External Audit / Inspections which include:

- Financial statements audit
- Value for Money conclusion
- Other external inspections

9) Risk Management which incorporates:

- A Risk management policy and strategy
- Quarterly monitoring and reporting of Strategic Risks

10) Counter Fraud work, which includes:

- Anti-Fraud and Corruption and Whistleblowing arrangements
- Anti-Money Laundering Policy and supporting arrangements
- Codes of Conduct for Officers and Members
- Financial and Contract Procedure Rules

The Council's Budget 2018/19 and Medium Term Financial Strategy

- 4.5 The Council's budget for 2018/19 includes £15m of savings to address the budget shortfall. This is on top of £162m of annual savings delivered between 2011/12 and 2017/18. Public consultation was carried out through December 2017 on the new budget savings proposals and they were considered by Overview and Scrutiny Management Board prior to Cabinet recommendation and approval by Council.
- 4.6 To help mitigate some of the pressures within Adult Social Care the Council took the opportunity to increase the 2018/19 Adult Social Care precept by the maximum 3% allowable announced by the Government, along with maximising its ability to raise income through Council Tax.
- 4.7 The Council's revenue budget outturn for 2017/18 achieved a £3.2m underspend which has reduced the level of planned use of reserves in the 2017/18 budget which was approved by Council in March 2017. However, within this overall positive position there were significant overspends in social care services which must be addressed if the Council is to remain financially sustainable in the future.
- 4.8 The Council is undertaking a number of cross-cutting reviews which demonstrate a more strategic approach where previously there has largely been an over-reliance on a traditional "top-slicing" approach. In future budgets there will be a stronger focus on delivering increased value for money as the Council continues to better understand its costs and compares itself with Councils elsewhere. These reviews will provide new budget proposals for 2019/20 and beyond to address some of the funding gaps in those years as well as identifying actions to address the spending

pressures in social care. The Council's 2018/19 Budget and Medium Term Financial Strategy can be found at www.rotherham.gov.uk. The Medium Term Financial Strategy is currently being updated for approval by Cabinet in the autumn.

Internal Audit

- 4.9 It is a requirement of the UK Public Sector Internal Audit Standards that an annual report is produced setting out the work performed by Internal Audit and the opinion of the *Chief Audit Executive* (at Rotherham this is the Head of Internal Audit) on the Council's internal control environment.
- 4.10 The Annual Internal Audit report was presented to the Audit Committee on 19th June 2018. The report confirmed positive progress had been made during the year, but also highlighted areas identified from the work of Internal Audit where further improvement could be made.
- 4.11 Internal Audit concluded that the Council had maintained overall an adequate and effective framework of governance, risk management and control.
- 4.12 In December 2016 Internal Audit was assessed as partially conforming to Public Sector Internal Audit Standards. An action plan was immediately put into operation. 13 of the 21 actions were completed during 2017, and as a result when assessed in December 2017 the department was found to have substantially improved and to be generally conforming to the standards.

External Audit

- 4.13 The Council's external auditor (KPMG) is required each year to carry out a statutory audit of the Council's financial statements and give an assessment of the Council's value for money arrangements.

Audit Opinion on the Council's Financial Statements

- 4.14 KPMG issued an unqualified opinion on the Council's financial statements for the 2016/17 financial year on 26th September 2017. In KPMG's opinion, the financial statements gave a true and fair view of the financial position of the Authority and of its expenditure and income for the year ended 31st March 2017.
- 4.15 KPMG have issued a final draft of the ISA 260 report for 2017/18 which anticipates that they will issue an unqualified opinion on the Council's financial statements before the deadline of 31st July 2018.

External Audit Value for Money Conclusion

- 4.16 KPMG issued an unqualified conclusion on the Council's arrangements to secure economy, efficiency and effectiveness in the use of its resources on 26th September 2017. In KPMG's opinion, the Council had, in all significant respects, proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the financial year ended 31st March 2017.
- 4.17 KPMG have completed their work in relation to the Value for Money Conclusion for 2017/18. The main focus of their attention in relation to the VfM Conclusion was the future financial sustainability of the Council with particular regard to 2018/19. KPMG have concluded that the Authority has made proper arrangements to secure economy, efficiency and cost effectiveness in the use of resources and anticipate issuing an unqualified Value for Money opinion before the deadline of 31st July 2018.

5 UPDATE ON MATTERS REFERRED TO IN THE ANNUAL GOVERNANCE STATEMENT FOR 2016/17

- 5.1 In November 2017, the Commissioners produced a thirty three month progress review to the Department for Communities and Local Government. Overall, the Commissioners stated that they continued to see evidence of ongoing progress by the Council and noted the growing strength of leadership of the Leader of the Council and the Chief Executive which boded well for the ongoing task of cascading improvement in leadership throughout senior and middle management.
- 5.2 The Commissioners also noted the Leader's wider role within the region which has been prominent and consistent. The thirty three month review can be found at www.rotherham.gov.uk
- 5.3 More details can be found below covering Children's Services, Child Sexual Exploitation and Corporate Improvement, including the Restoration of Powers.

Children's Services

- 5.4 Following the 2014 Ofsted Single Inspection Framework (SIF) inspection which judged Children's Care Services as inadequate, the Children's Improvement Board continued to oversee progress of the Children and Young People's Services (CYPS) Improvement Plan through monitoring, challenging and supporting officers. This has been summarised in previous Annual Governance Statements. The Board considered the areas of greatest risk first, and laid the foundations for

effective and sustained improvement. This included challenging whether sufficient progress was made.

- 5.5 The most recent Ofsted inspection, which was published in January 2018 following a full re-inspection in November 2017, stated that the local authority had taken a systematic and rigorous approach to improvement since the last Ofsted inspection in 2014. The findings from the most recent Ofsted inspection report have been included in the Improvement Plan and are subject to monitoring at the monthly Performance Board meetings. The Improvement Board held its last meeting following the publication of the report and the improvement plan and in particular the 8 recommendations from the Ofsted re-inspection are now monitored at the monthly Performance Board as well as being part of business as usual Service Planning Monitoring.
- 5.6 The Ofsted report stated that the recruitment of effective senior managers has resulted in sustained improvement and that the quality and impact of services for children have been transformed. Ofsted reported that risks to children are recognised early and responded to, ensuring their safety and, overall, that the corporate response and associated change in the quality of children's services has been impressive.
- 5.7 Ofsted also stated that the Council achieves excellent outcomes for a great majority of its care leavers. Since the last inspection, councillors and senior leaders have invested significantly in the care leaving service, expanding its capacity and providing excellent new facilities, including a dedicated drop-in centre and good-quality housing. Highly effective partnership working has developed a broad range of services that give care leavers access to good-quality housing, and opportunities to receive education and training, and to gain employment.
- 5.8 The Ofsted report focused on a number of areas where work needs to be done to further improve performance. These included the need for greater management challenge of the quality of practice and planning for children looked after, the need to improve some risk assessments, the need to ensure that assessments are up to date for children looked after and the need to properly reflect the complexity of needs or how these will affect the children's future requirements.
- 5.9 The local authority is working to address these areas of provision that require improvement. Continued progress will depend on the Council meeting its vision for prioritising Children's Services and maintaining improvement within the services. This will include managing the significant financial pressure brought about by the need to strengthen the service. The Council is continuing to work to ensure that the needs of Children's Services are properly resourced within the financial

envelope that is affordable to the Council whilst sustaining the improvements carried out to date. Significant work is underway to ensure that services are delivered efficiently and that value for money is secured.

Child Sexual Exploitation – “The Way Forward for Rotherham 2015-2018”

- 5.10 The Children and Young People’s Services Action Plan remains the primary mechanism for delivering improvement. Improvements are being delivered through a multi-agency action plan jointly owned by the children and adult safeguarding boards and relationships across agencies are improving and leaders are increasingly modelling behaviours conducive with effective joint working. This is evidenced by the work of the Evolve Team, a crucial partnership between Children’s Social Care and South Yorkshire Police to address Child Sexual Exploitation effectively. In addition, the Multi-Agency Safeguarding Hub continues to bring together partners to facilitate effective decision making to keep children and young people safe from harm. Public confidence and staff morale across agencies continues to be boosted by a stream of successful prosecutions for online, non-recent, and current Child Sexual Exploitation.
- 5.11 Six independent reports into various issues raised by aspects of the Council’s actions around Child Sexual Exploitation were published on 6th September 2017. Although these reports were critical of the Council’s actions in the period leading up to the appointment of the Commissioners in February 2015, no new issues were identified that impact on the current arrangements in place at the Council.

“A Fresh Start” Corporate Improvement

- 5.12 The first phase of the Council’s Corporate Improvement Plan (‘A Fresh Start’) included 132 separate projects and was substantively completed by the end of May 2016. The second phase of the Corporate Improvement Plan (‘Phase Two Action Plan’) from May 2016 was agreed by the Joint Board of Commissioners and elected members and further endorsed at the Cabinet and Commissioners’ decision making meeting on 11th July 2016. The Phase Two plan included 20 overall improvement objectives (and 99 specific milestones) to be delivered over the year to May 2017.
- 5.13 The Council concluded this phase of improvement activity in November 2017. The concluding performance progress report covering activity up to this date set out that 97 of the 99 measurable milestones in the ‘Phase Two’ action plan had been substantively delivered. There were three actions underneath these remaining two milestones, both of which were scheduled to be completed by the end of 2017. The actions remaining were; the review of the Compact; the implementation of the

commissioning action plan and the six month review of the constitution. Both outstanding actions have now been completed and follow up arrangements are being embedded within the Council's governance and management processes.

- 5.14 The Council is now an organisation which uses intelligence to assess what it does and how well it does it. The development of Members, senior managers and other managers has increased the Council's ability to effectively govern, lead and manage its operations. The capacity and capability of the Council has been developed through new leadership which is able to respond to the challenges ahead and future improvement and development will be managed through the Council Plan and the Council's performance management framework.

Adult Social Care

- 5.15 The 2016/17 Annual Governance Statement reported the progress that Adult Social Care Services had made against their improvement priorities. Specifically, it reported that an improvement plan has been developed to track social work performance and align this to an enhanced understanding of the customer cohort and spend data through the ContrOCC finance system.
- 5.16 The Commissioner's most recent progress report referred to the pressures within adult social care and the actions the Council was taking to manage demand and a backlog of referrals. They reported that the Council continued to make progress with its improvement work and, in particular, the governance arrangements of the Adult Social Care Improvement Board had been refreshed and now include external challenge from an experienced independent chair and additional peer support/critical friend input from the Local Government Association. A new improvement plan is in place and the LGA has reviewed and critiqued the programme to support the improvement plan.
- 5.17 The improvement plan has provided a level of structure and discipline to taking corrective action, waiting time for assessment and leadership and other detailed work has been carried out relating to the medium term finance strategy and associated actions and ownership. The Council continues to experience rising demand but has responded proactively and has made good progress on ensuring that referrals are up to date. The ongoing reduction of the backlog, performance and caseload management is being closely project managed within the improvement plan. Progress is also being made to reduce the costs of the service and improve value for money with a number of significant decisions being brought before Cabinet during 2018/19 for decision.

Information Governance

- 5.18 In last year's Annual Governance Statement it was reported that the Council failed to retain its Public Services Network (PSN) certificate due to insufficient progress being made to action the previous years' requirements. This has not had any impact on the business of the Council but there was a risk that, should lack of progress continue, the Council's permissions to share confidential data with other organisations would be removed. It was also reported that an action plan had been developed and action was being taken to deal with the identified weaknesses. Delivery of the action plan has progressed well with 90% of tasks completed during the last 12 months and regular discussion with the PSN office to discuss this progress.
- 5.19 A Corporate Information Governance Group remains in place and is chaired by the Senior Information Risk Owner (SIRO). There is also a work programme developed to ensure continued improvement in all areas connected to information and data management and the Group will continue to address the risks associated with these issues in the course of 2018/19. High level risks have been mitigated with appropriate actions and work is focusing on the completion of tasks required to ensure the Council is GDPR (General Data Protection Regulation) ready for 25th May 2018.
- 5.20 Additionally, last year's Governance Statement reported that Freedom of Information response times had deteriorated, significantly over the previous year although they had mostly recovered by the year end. In the course of this year, the Freedom of Information process has been reviewed and re-engineered to make it more efficient and citizen focused and is now operating effectively. Significant progress has been made on improving the response rate across all areas of the Council and monthly updates are presented to the Senior Leadership Team.

6 OTHER SIGNIFICANT ISSUES ARISING DURING 2017/18

Medium Term Financial Strategy

- 6.1 The biggest challenge for the Council is the cost and demand pressure on social care services. In 2017/18 both Adult's and Children's social care services overspent significantly. The cost of these services need to be brought down in the current year to ensure that by the year end the overall Council budget is within the risk contingency set. In the short to medium term the cost of these services needs to be brought down further as the biggest risk to the Council's future financial sustainability is the pressure on these services. Substantial in depth work and

analysis is taking place in order to identify where the cost pressure can be addressed or mitigated without adverse impact on vulnerable children and adults. The outcome of this work will be reported in the update of the Medium Term Financial Strategy which will be presented to Cabinet in the Autumn.

- 6.2 Ongoing issues relating to Children's Social Care and Child Sexual Exploitation are reported in Section 5 above. Progress on improvement actions in these areas will continue to be reviewed and reported during 2018/19 and summarised in the Annual Governance Statement for that year. All other issues arising during 2017/18 from other review processes have been included in the previous section as they were all mentioned in last year's Annual Governance Statement.

7 UPDATE SINCE MAY 2018

- 7.1 On the 14th June 2018 the Commissioners published the results of the Independent Health Check and their 39 month progress review letter to the Secretary of State and on the 23rd July 2018 the Secretary of State announced his intention to withdraw the Commissioners as a result of the progress that the Council has made since 2015. A summary of this can be found in paragraphs 3.10 to 3.13.

8 LEADER AND CHIEF EXECUTIVE STATEMENT 2017/18

- 8.1 This Annual Governance Statement fairly reflects the position at Rotherham Metropolitan Borough Council during the year and up to the date of signing.
- 8.2 The Council has continued to make good progress on its improvement journey throughout 2017/18 and this is supported by the comments made by the Commissioners in their most recent progress review. Positive progress continues to be made and this is supported both by the further restoration of powers to the Council throughout 2017/18 by the Secretary of State as well as by the positive outcome from the Ofsted re-inspection
- 8.3 The Council Vision remains current and has been reflected in the Council Plan which has been in place throughout the year. This Plan has been monitored through the Performance Management framework which includes public reporting of Council performance against the Plan. Refreshed indicators under the Council Plan have been finalised and were approved in May 2018. The Medium Term Financial Strategy sets out the prioritising and funding of the Council's aspirations. These and other guiding documents developed during the year provide the building blocks for the Council to make further improvements.

- 8.4 There continues to be clear and demonstrable progress as evidenced by the return of powers, the completion of the phase two Corporate Improvement Plan and the views of the Commissioners. Although, at the time of writing, Commissioners retain oversight of children’s safeguarding and children’s social care, the evidence in place throughout the 2017/18 year supports a conclusion that, overall, the Council demonstrated good governance and met its Best Value duty throughout the year. The action plans in place, which are now embedded as part of Service Plans and the wider Council Plan, will continue to drive further improvement throughout the coming year.

Signed

Councillor Chris Read,
Leader, Rotherham MBC
Date: 31st July 2018

Signed

Sharon Kemp,
Chief Executive, Rotherham MBC
Date: 31st July 2018

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