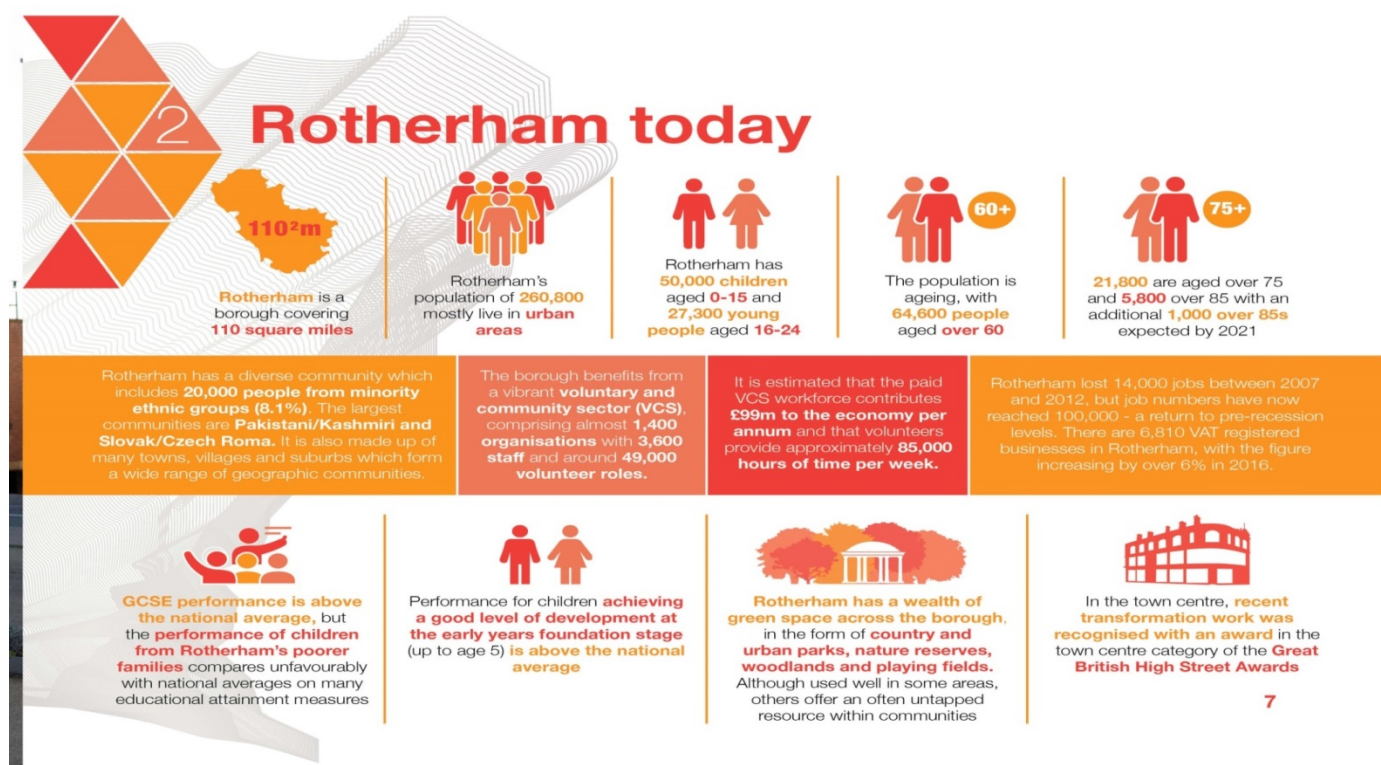




# ROTHERHAM MBC

## 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 52<sup>nd</sup> 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 31<sup>st</sup> 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).

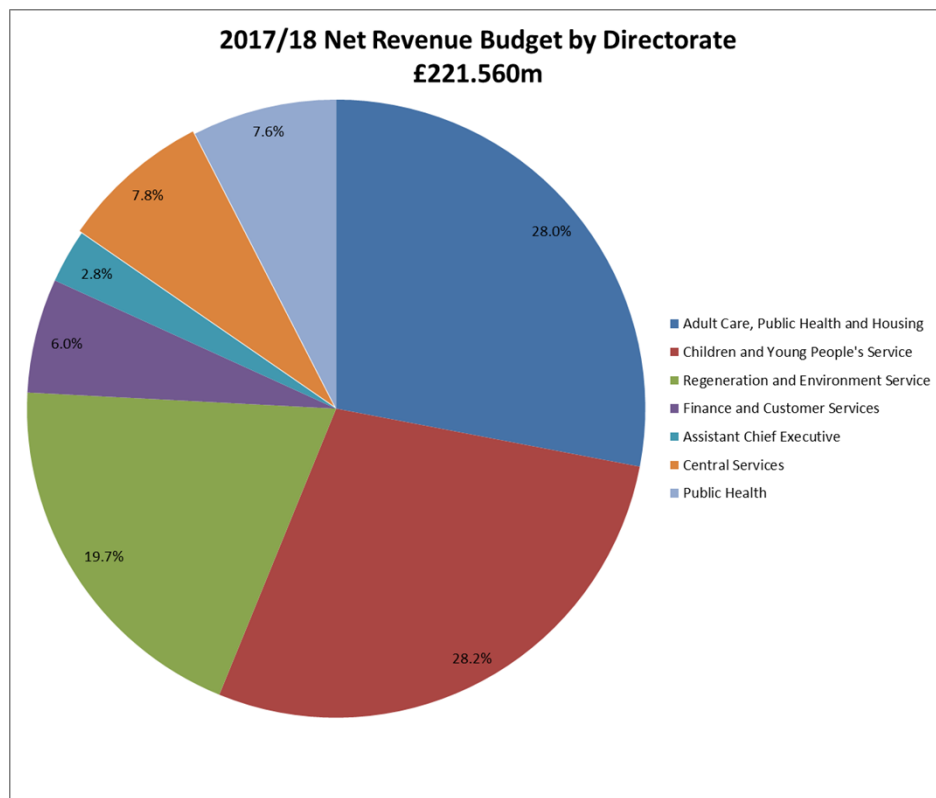
## **Revenue & Capital Expenditure Outturns**

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**

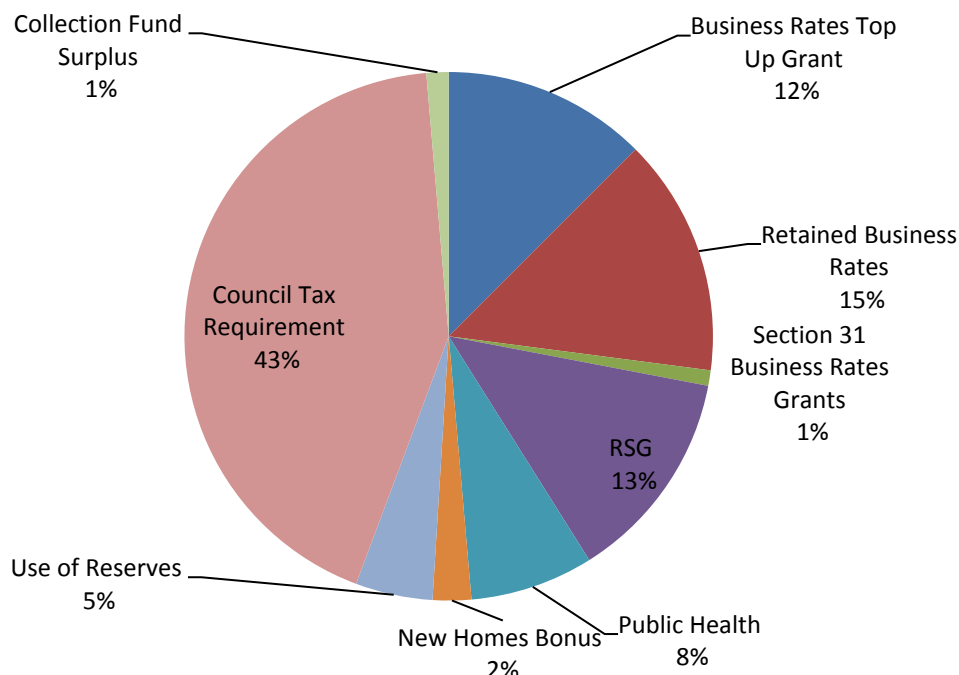
Revenue expenditure covers the day-to-day running costs of the Council's services.

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:

## Funding the Budget 2017/18 £221.560m



### 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.

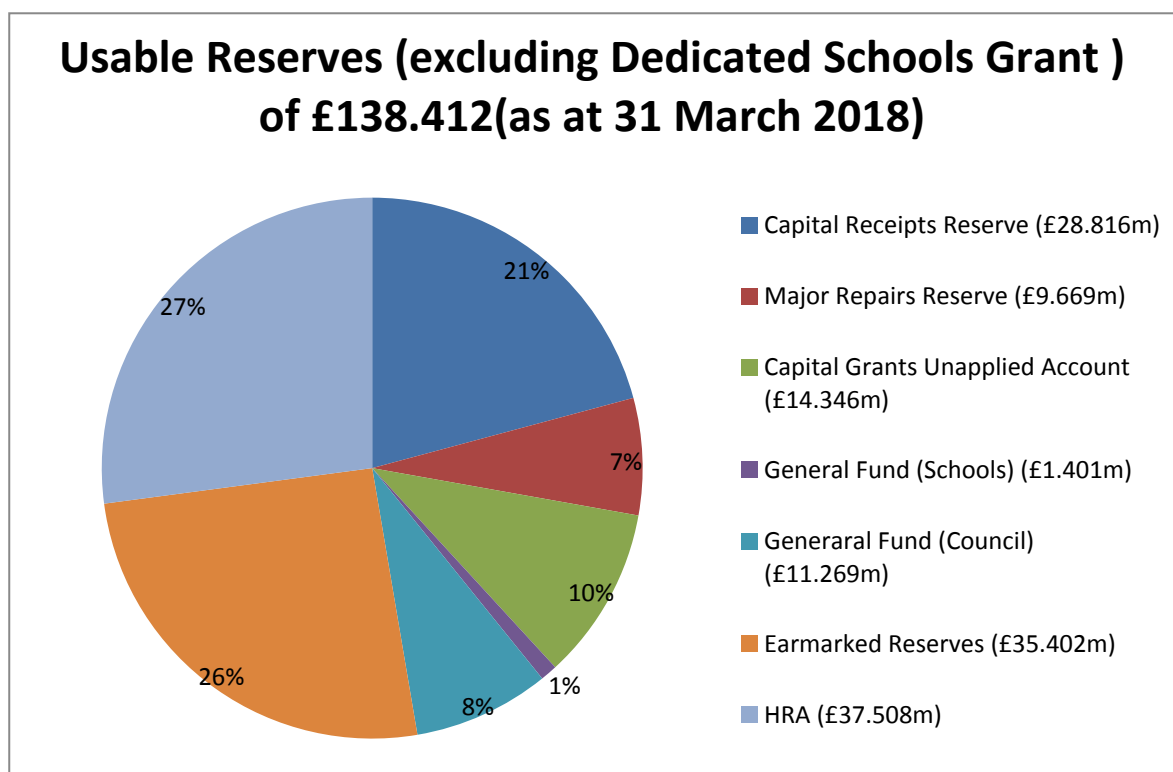
*Unusable reserves* are funds that cannot be used to provide services or used for day to day running costs. The unusable reserves hold funds that have 'unrealised gains or losses'. For example, we have assets such as land and buildings whose value changes

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 31<sup>st</sup> 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	<b>Long Term Borrowing</b>	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	<b>Short Term Borrowing</b>	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**

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Date