

ROTHERHAM MBC

NARRATIVE REPORT 2019/20

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Background

The Accounts and Audit (England) Regulations 2015 introduced requirements for 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 2019/20, how it was spent and what has been achieved in line with the Council's priorities and specific improvement agenda. 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.

Covid-19

Following the impact of Covid-19 on all Councils functions it was clear that the production of the statement of accounts in line with traditional deadlines was not feasible. As such following the announcement that the revised deadline for production of unaudited accounts would be pushed back to 31st August 2020, the Council has agreed to produce its accounts by the 31st July 2020, with final accounts due for publication by 30th November 2020. The statement of accounts covers the Councils views on the concerns around the potential financial impact of Covid-19, however, what is clear at the time of producing the accounts is that the ultimate short, medium and long term implications of Covid-19 are still unclear.

Governance

The Council is in a far better place than when it started its improvement journey 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 the report, the Council implemented an improvement plan and as a result continues to make improvements to its services:

- The Children's and Young People's services were rated as 'good' by Ofsted,
- Rotherham continues to be the fastest growing economy in Yorkshire, and
- The final Independent Health Check stated that the pace of improvement across the Council had increased beyond the Government's expectations.

As a result of the improvements made, Government intervention ceased on 31st March 2019 and Council services have returned to democratic control.

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 265,430 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 fewer than 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, a rail network (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 48th most deprived district in England, mainly as a result of: poor health, recorded crime, worklessness and low levels of adult qualifications (this is despite positive performance in terms of attainment in Rotherham's schools).

Vision and Priorities

The Council Plan 2019/20 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

The Council remains committed to protecting the most vulnerable children and adults and to delivering improved value for money but has to ensure that social care services are delivered within the financial envelope set within this budget. The additional social care resources provided within the Finance Settlement for 2020/21 are welcome, as is the Government statement within the December 2019 Queens' Speech that these additional resources will be delivered across the life of this Parliament, but this level of additional funding still falls well short of the national social care funding gaps as calculated by the Local Government Association. There is still therefore the need for the Council to transform the delivery of social care services in order to maintain effective service provision within the available funding.

Since the introduction of austerity measures in 2010, the Council has made savings in excess of £200m in response to the significant reductions in Central Government funding. This includes new savings of £16m to be delivered in 2020/21 which were agreed last year within the two-year budget for 2019/20 and 2020/21 approved by Council in February 2019.

In responding to the cross cutting theme of being a 'modern and efficient Council', the Council 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 Digital Programme, which consists of a number of business cases and projects including the implementation of underlying technology required by the programme, service redesign and projects to deliver digital solutions and efficiencies across the Council.

Whilst the Council is becoming smaller in size, it is focused on being bigger in influence. This means a changing role for the Council involving stronger civic leadership, greater collaboration with and integrating and sharing services with other public sector organisations.

The Council recognises that it needs to build 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. This also means the Council needs a clearer focus and prioritisation of resources – in some cases stopping doing some of what it has traditionally done before.

Each Directorate has developed its own service plans to support delivery of the refreshed Council Plan for 2019/20 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: and**
- Creating a vibrant **town centre** where people want to visit, shop and socialise.

Rotherham's Plan 2025 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 focussed. 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, they set 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 2019-2020 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 during 2019/20. At the end of the fourth and final quarter (January to March 2020) 37 measures had either met or had exceeded the target set in the Council Plan. This represents 60% of the total number of measures where data is available or where targets have been set. The direction of travel is positive for 35 (56%) of the indicators measured in the final quarter.

Some of the Council's key achievements in 2019/20 were:

- A new **Adult Care Pathway** went live – focussed on providing the right support to vulnerable adults for the right amount of time.
- **Waleswood Caravan Site** was officially opened on 24th June 2019. In July 2019 the AA awarded the site 5 pennants plus a Gold Standard certification, highlighting Waleswood as one of the highest quality sites in the UK.

- Led the response and recovery to the significant **flooding** that hit the Borough on 7th November 2019 - 799 flooding related calls received, 67 people assisted who were stranded at Parkgate, 3,250 sandbags distributed; approx. 300 household/business claims received
- Signing a legal agreement with Muse, who were appointed as the Council's development partner for the leisure development on **Forge Island** and work commenced on site to develop the flood defences in October 2019
- The Bellows, Rotherham Council's shared ownership development at Rawmarsh, was named as the **Best Shared Ownership Development** (urban) at the prestigious Inside Housing Development Awards in November 2019. On winning the award, the Council was praised for using compulsory purchase order powers to buy what was a disused shopping centre and a multistorey car park which was once a hot-spot for antisocial behaviour.
- On 5th July 2019 the Council was notified that it had been selected as one of 50 areas shortlisted for Stage 2 of the bidding process for the national **Future High Street Fund**.
- Delivered a successful initial response to the **COVID-19 emergency** which included rapidly reshaping services and setting up a Community Hub to support the most vulnerable people in the Borough. This response is ongoing into the next financial year.

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 2020 and shows 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 2019/20 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:

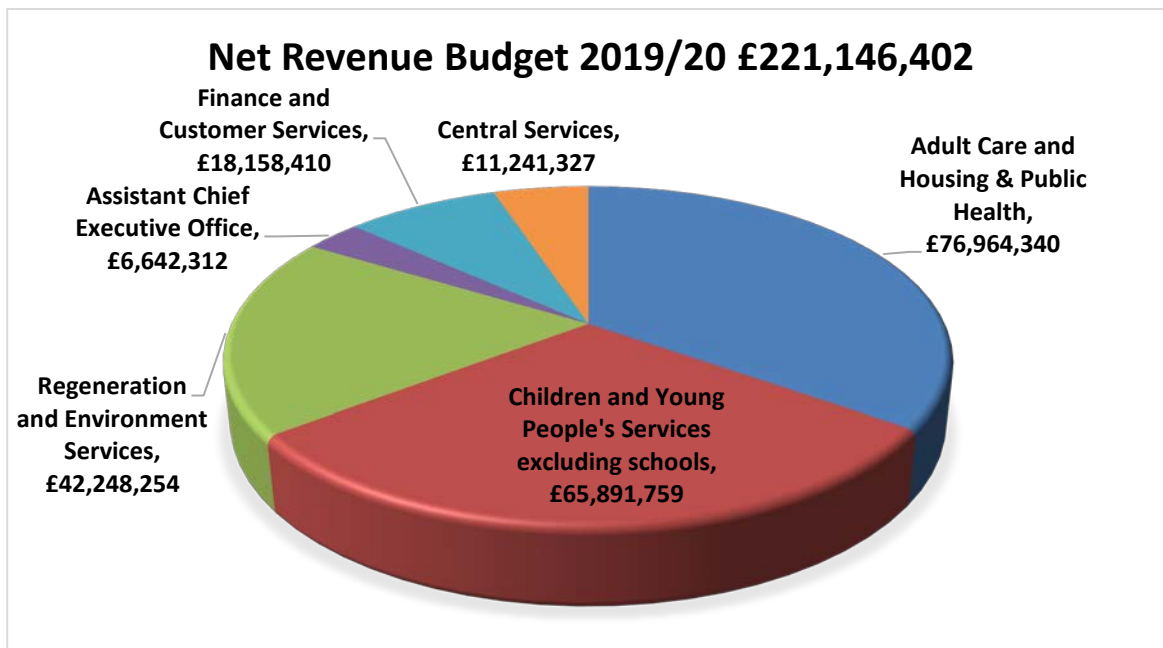
- *Statement of Responsibilities*
This sets out the respective responsibilities of the Council and the Strategic Director of Finance and Customer Services.
- *Comprehensive Income and Expenditure Statement*
This account summarises the revenue costs of providing all Council services and the income and 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 (HRA)*
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 major precepting authorities (i.e. South Yorkshire Fire and Rescue and the Police and Crime Commissioner).

Revenue & Capital Expenditure Outturns

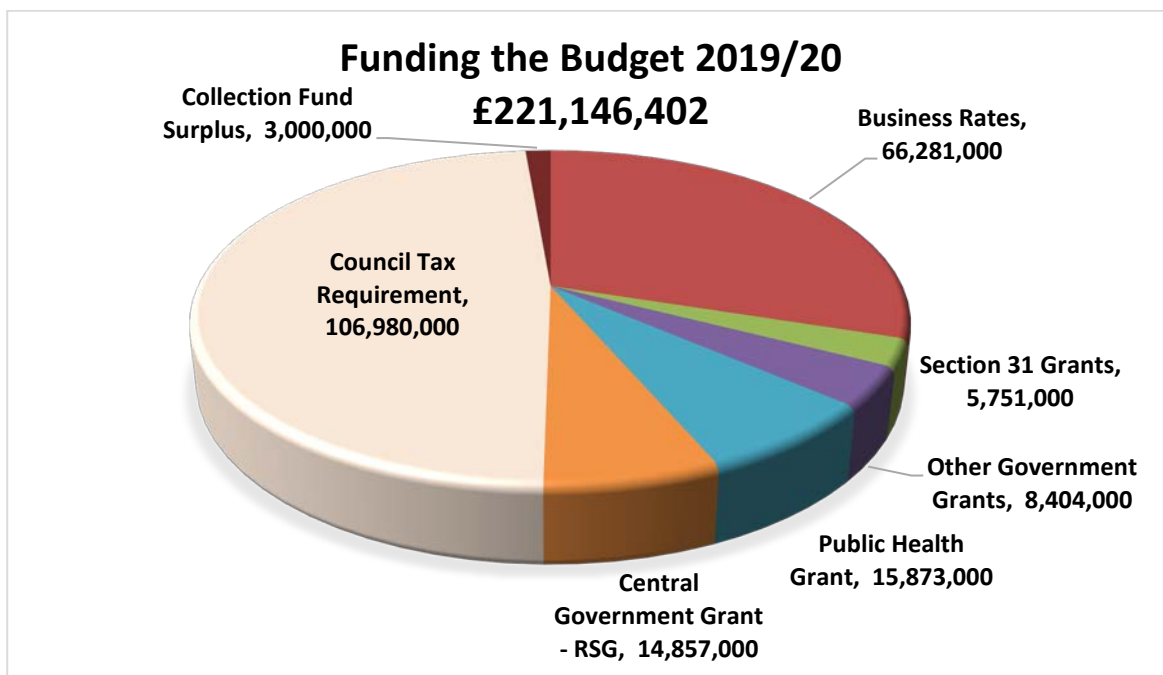
A summary of the Council's revenue and capital outturns for 2019/20 is included in the following paragraphs. Further details have been reported to Cabinet on the 20th July 2020. The agenda for this meeting can be accessed through the Council & Democracy page of the Council's website.

Revenue expenditure overview

Revenue expenditure covers the day-to-day running costs of the Council's services. The net revenue budget for 2019/20 was £221.146m (after taking account of income from specific grants and fees and charges) and was split by Directorate 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 £221.1m as outlined above, together with planned use of £3.2m corporate reserves as part of the budget contingency. The final outturn position was a balanced budget which required £2.0m less use of corporate reserves than planned for. Additional funding received in year, use of earmarked reserves and flexible use of capital receipts has resulted in a reduced call on the reserves of £1.2m leaving a balance of £2.0m to support the budget in later years.

The key variances within the outturn position are summarised below;

- An overspend of £4.4m on Children and Young People's Services, which is largely due to demand for services outstripping budget capacity. This leads to pressures across residential placements, special guardianship placements, emergency placements and direct payments. The overall pressure faced by the service was mitigated to a degree due to £1.3m received from the DfE linked to Stovewood costs.
- A £0.7m overspend within the Adult Care, Housing and Public Health Directorate predominantly due to: increased demand for services particularly in respect of residential and nursing care budgets across all client groups, the rising cost of care packages and delays in the delivery of savings plans;
- A £2.5m overspend on Regeneration and Environment Services. There were significant pressures as a result of delays in the delivery of savings, continuing additional demand for Home to School Transport, underachievement of income in Green Spaces (Rother Valley & Thrybergh Country Park).
- A £0.8m underspend within the Council's Finance & Customer Services and Assistant Chief Executive's Directorates, predominantly due to reduced demand on legal services and vacancy control;
- A £5.6m underspend in Council-wide Services, mostly arising from: savings from Treasury Management activity, reviews of PFI funding and payment profiles, business rates relief grant income and savings from early payment of pension costs to SYPA.
- Use of the risk contingency of £1.2m

Schools' Outturn

In addition to General Fund balances and reserves the Council also holds £2.524m relating to School Delegated Budgets. As can be seen below, this represents a decrease of £0.845m on the previous year.

2018/19 £m		2019/20 £m
3.369	Unspent Schools' Budgets	2.524m

Housing Revenue Account Income and Expenditure Account

For 2019/20, the Income and Expenditure Account shows a surplus on the provision of HRA services of £4.980m. 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 £14.404m and led to an overall deficit of £9.424m for 2019/20 which is principally due to an increase in the revenue funding of capital costs resulting from an increased capital programme offset by a decrease in the provision for bad debts and an increase in income.

The balance on the HRA at the end of 2019/20 was £17.116m. 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 costs of collection.

Reserves

The Council manages its funds between two categories of reserves: usable reserves and unusable reserves.

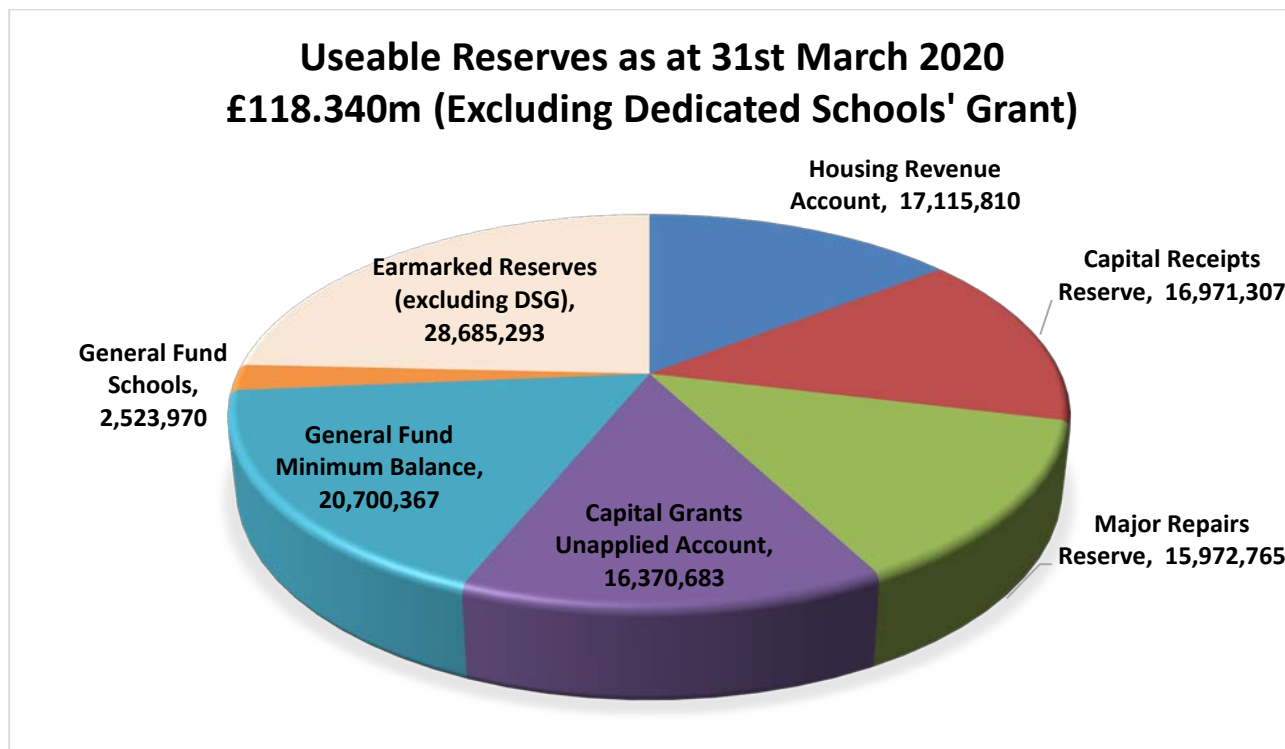
Usable reserves are funds that the Council has set aside to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (e.g. the Capital Receipts Reserve may only be used to fund capital spend or repay debt, and cannot be used to support revenue spending directly).

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, the Council has 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.

As at 31st March 2020, the Council held £118.340m of usable reserves (excluding Dedicated Schools Grant). Included within this balance are capital reserves of £49.315m, which can only be used to finance capital expenditure or repay debt. They cannot be used to support revenue spending directly. There is currently a deficit balance on the Dedicated Schools

Grant, which in accordance with Government policy, can be carried forward, with the deficit to be addressed in future years. The Children and Young People’s Service has developed a recovery plan to clear the deficit over the next few years. The plan is subject to Government approval.

This leaves £69.025m of revenue reserves and balances. However, most of these are ring-fenced (HRA and school balances) or are earmarked for specific purposes. This balance also includes £15.274m of emergency Covid-19 funding.



The uncommitted General Fund balance of £20.700m 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 2019/20 amounted to £96.985m and is analysed by Directorate as follows:

Directorate	2019/20 £m
Children and Young Peoples Services	8.831
Assistant Chief Executive	0.808
Adult Care & Housing	4.278
Finance & Customer Services	5.639

Regeneration & Environment	33.163
Housing Revenue Account	44.266
Total	96.985

The capital expenditure was financed as follows:

Funding Stream	2019/20 £m
Borrowing need	21.625
Major Repairs Allowance (MRA)	15.548
Grants & Other Contributions	25.972
Capital Receipts	18.973
Internal Funds (e.g. Reserves, etc)	14.867
Total	96.985

Major items of capital expenditure incurred are as follows:

Major Capital Expenditure	2019/20 £m
<u>Non Housing:</u>	
Waverley New Primary School	3.103
Beighton Link Project Growth Fund	5.204
Carriageway Resurfacing	3.212
Pothole Grant	1.649
Unclassified Roads	3.443
Parkway widening	3.457
College Road	2.728
<u>Housing Investment Programme:</u>	
Physically Handicapped Conversions / Improvements (Public)	2.826
Voids Programme	2.796
Refurbishment of Council Stock	10.164
Physically Handicapped Adaptations (Private)	2.143
Site Clusters	14.116
New Build Provision - Bellows Road	4.373
New Build Provision - Rothwell Grange	2.572

Treasury Management & Prudential Indicators

A summary of the Council's borrowing position as at the 31st March 2020 is shown below. Further details of the Council's Treasury Management activities and prudential indicators were reported to the Cabinet Meeting on the 20th July 2020. The agenda for this meeting can be accessed through the Council & Democracy page of the Council's website.

The Council's borrowing levels are summarised below:

As At 31 March 2019 £m	Long Term Borrowing	As At 31 March 2020 £m
96.702	Public Works Loans Board (PWLB)	184.389
223.000	Market (e.g. Banks, Other Local Authorities)	213.000
	Short Term Borrowing	
167.000	Temporary Borrowing	239.000
	External Investments	
0.000	Debt Management Office	0.000
27.530	Money Market Funds	39.675
559.172	Net Borrowing	596.714

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 2019/20. 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 2019/20, however it should be noted that under the Accounts and Audit Regulations 2015, since 2017/18 local authorities are required to publish their unaudited accounts by 31st May, however due to Covid-19 implications the deadline for publication of unaudited accounts has been pushed back to 31st August 2020.

Risks and Opportunities

Delivery of the agreed budget over the next two years presents a significant financial challenge for the Council, having regard to the current spending levels in social care services, which are not sustainable. It is essential that the cost reductions and budget

savings now agreed are delivered and delivered within the timescales set within the budget. The Council's MTF5 to 2022/23 will be kept under review and updated as necessary following the release of future local authority funding information from the Government through the Spending Review in the Autumn 2020.

A proportion of the budget options for 2020/21 and 2021/22 require a significant shift in the way some services are currently delivered. Plans are in place to ensure that delivery of savings is managed and monitored, with regular reports to elected Members on progress against the agreed saving targets.

The cross-cutting theme, "to be a modern and efficient Council", also remains valid and applies to all service change and improvement work across the Council. The Customer Services and Digital Programme is one of the key drivers of this theme alongside the specific work being carried out in the Social Care Services.

Covid-19 will add further complexity to the picture due to the significant challenges it presents, not just from additional costs and lost income but from the movement of staff away from the delivery of day to day services and savings delivery. It is likely that Covid-19 will impact the planned delivery of savings in 2020/21 that will ultimately impact 2021/22 as it will create a greater delivery challenge in that year.

Financial Outlook

The ongoing financial challenges faced by the Council are similar to those of other local authorities, these being: reductions in Government funding, increased demand for social care services as a result of a growing population and the impact of inflation. This budget challenge means that the Council must be responsible in its budget setting approach: giving precedence to investment and savings proposals that best contribute to the Council's priorities and the needs of Rotherham's residents, and that ensure that best value is demonstrated across the breadth of Council services. This means a changing role for the Council. Stronger civic leadership, greater collaboration, integration and shared services with other public organisations are all progressing and will continue to do so. The financial challenge also means a new approach 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. It also means a clear focus and prioritisation of resource – and in some cases stopping doing things that the Council has traditionally done before.

Since 2011, the Council has had to make savings of over £200m, including the savings for 2020/21, and has reduced its headcount by approximately 1,800 staff (over 1,100 full time equivalent staff), whilst minimising the tax burden on households as much as possible when real term incomes for Rotherham residents have not been increasing.

In the last three years, the Council has changed the way in which it works with other agencies in order to implement these changes. Despite the unprecedented financial pressures, the Council will have to focus on delivering better services, focussed on the priorities set by the public.

The Council continues however to face significant financial pressures going forward, particularly in respect of social care for both adults and children. The Council has updated

its Medium Term Financial strategy and made budget proposals for 2020/21 to 2022/23 financial years. The Council set a two-year budget for 2019/20 and 2020/21 at the Council Budget meeting in February 2019. The two-year budget included savings to address a funding gap of £30m over those two years, those savings included £16m of Service Directorate savings to be delivered in 2020/21.

It is also important to underline the spending level of the Council despite the previous funding cuts. With a current revenue budget of £233m in 2020/21 together with capital expenditure of £147m, the Council will remain a key lever for growth and investment in Rotherham and the wider Sheffield City Region. The challenge is to ensure the sustainability of the Council to deliver services and deliver against the Council's stated priorities. This means making carefully considered investment and savings decisions through to 2023. The updated Capital Programme includes a total of £611m of planned capital investment across the current year and up to 2023/24.

The challenge is to ensure the sustainability of the Council to deliver services and deliver against the Council's stated priorities. This means making carefully considered investment and savings decisions through to 2023 and in some cases making real cuts and reductions in service provision. This budget strategy is set against the particular demand pressures and cost challenges facing Rotherham. Residents are living longer, but with more long term health conditions and the numbers of Looked After Children is continuing to increase, which are stretching already squeezed health and social care budgets

Covid-19 has generated a significant amount of uncertainty in both national and local context and the financial challenges it presents are significant, though at the time of producing the accounts the true impact is unclear. The Council will continue to work closely with government to report on the financial implications of Covid-19 to help ensure that the emergency funding support provided is adequate to mitigate the impact on the Councils financial position.



Signed

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Date 31 July 2020