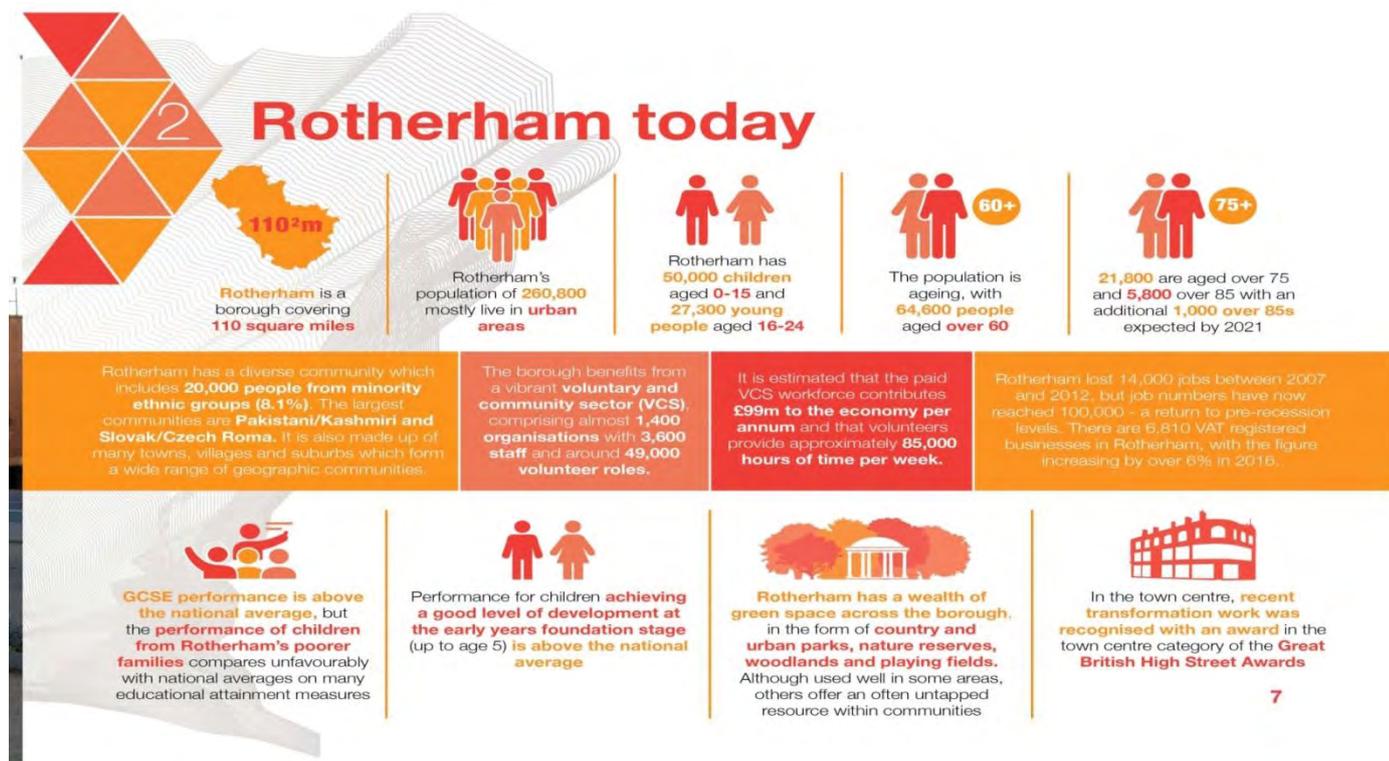


ROTHERHAM MBC

NARRATIVE REPORT 2016/17



Narrative Report 2016/17

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 MBC spent in 2016/17, 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 over all executive decision-making at the Council.

As a result of the continuous improvement made by the Council throughout 2016/17, a majority of the Council's functions have now been handed back. By the end of the financial year only the management of performance, waste and assets, as well as human

resources, community safety, children's safeguarding and all other children's social care services remained the responsibility of Commissioners - all other functions having returned to Council 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 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

Following a consultation process, the 'Views from Rotherham' consultation report was published in September 2015. This enabled the Council to define a new vision for the Borough:

"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 Rotherham MBC is 'a modern, efficient council' in line with the above vision. The headline measures and priorities across the council that support the delivery of this new vision were set out in the 2016/17 Corporate Plan and Performance Management Framework and the Council has monitored its performance against the Plan in the course of the financial year.

Delivering the vision and priorities

Between 2011 and 2016 the Council made savings of £138m and reduced its workforce by 1,700 staff. Over the coming year the Council will continue to focus on reforming its services against the backdrop of making further necessary in-year savings. This is set against the additional financial pressures of the National Living Wage; increasing demand for services as a result of a growing population and changing demographics in Rotherham; and the impact of inflation.

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 MTFs. 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 Corporate 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 Corporate Plan for 2016/17 set out specific actions within each of the four vision themes noted above, as well as the cross-cutting corporate commitment to a 'modern efficient council'. The Plan described what the Council's main outcomes, measures, indicators and targets would be during the year with these further supported by underpinning service plans. The Plan has been monitored through a process of public quarterly reporting to Cabinet, supported by monthly monitoring of indicators by individual service teams. Each Quarter's report highlighted the key areas where services have met or missed performance targets. By the end of the financial year, the performance monitoring process was reporting that over 50% of the targets for which information was available had been hit or exceeded.

The Council has now refreshed the Corporate Plan in the light of its experience over the past twelve months and a three year Council Plan covering the 2017-2020 period has been published that replaces the Corporate Plan. The priorities and themes in the refreshed Plan are unchanged and the quarterly public reporting process is intended to continue throughout the 2017-18 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 2017 and show its overall financial position at the end of that period. By law, all councils 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 2016/17 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

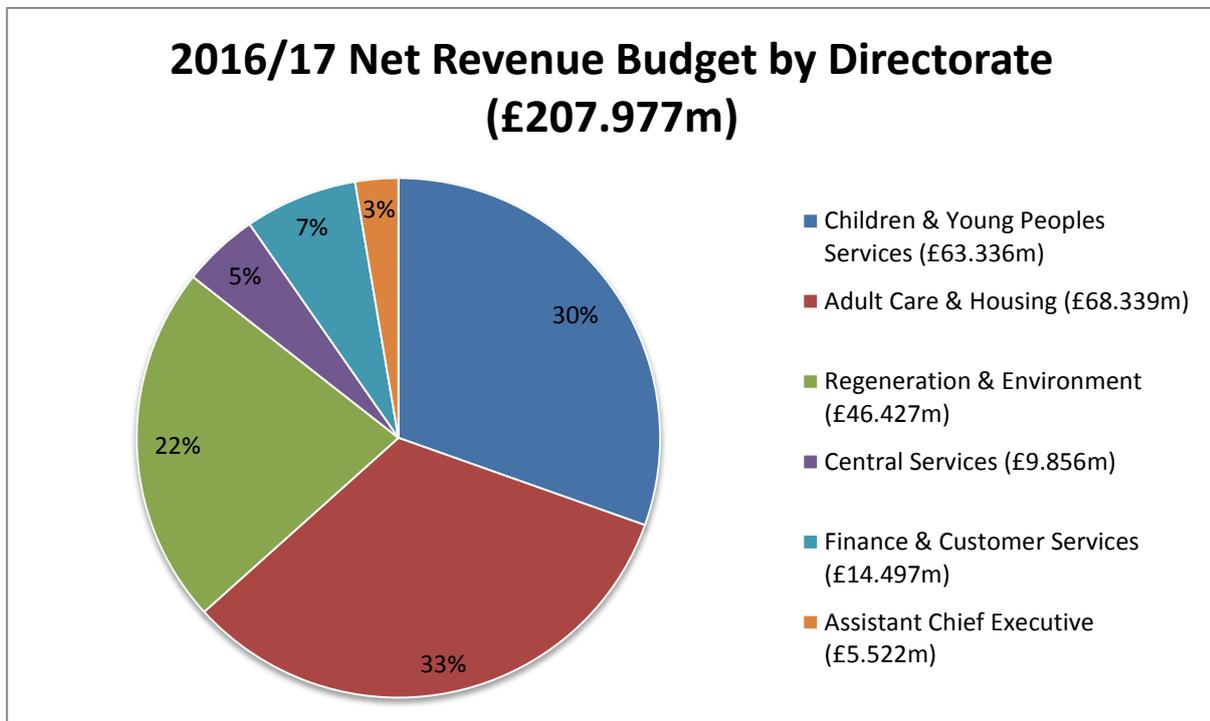
This statement summarises the transactions of Rotherham as a Billing Authority in relation to National Non-Domestic Rates and Council Tax, and also illustrates the way in which income has been distributed to precepting authorities (i.e. South Yorkshire Fire and Police).

Revenue & Capital Expenditure Outturns

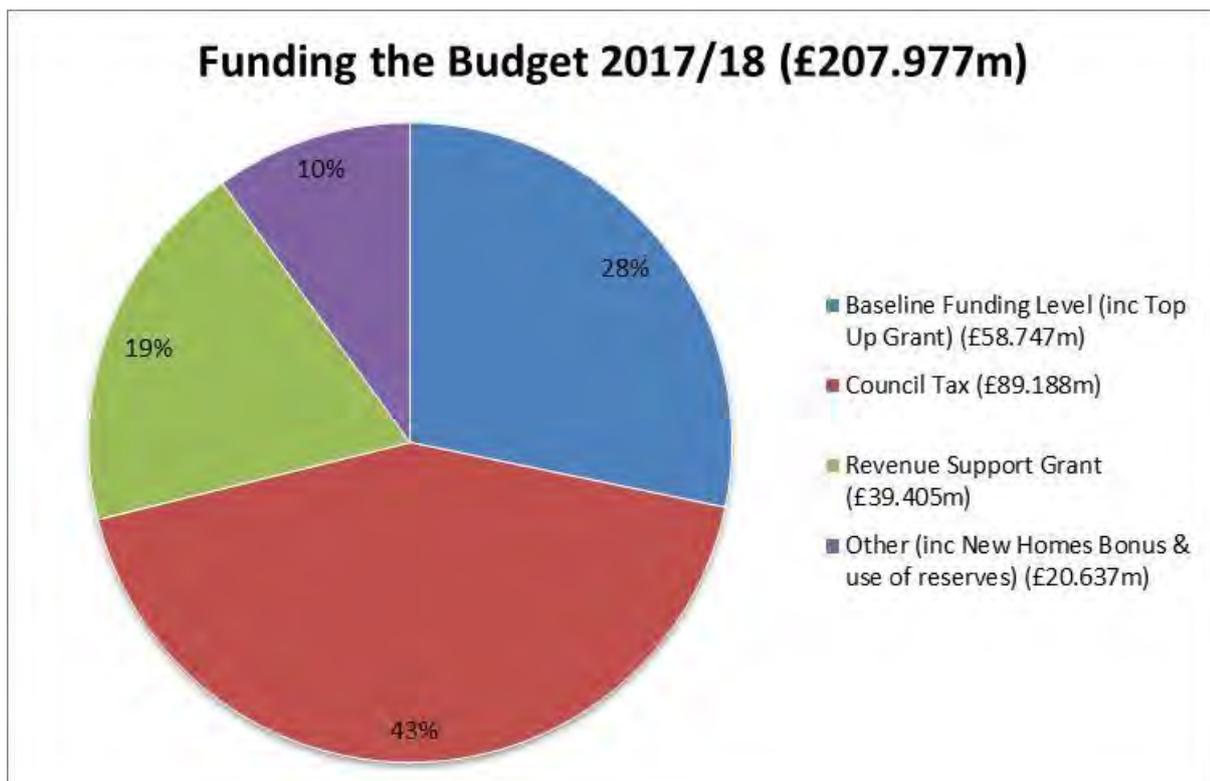
A summary of the Council's revenue and capital outturns for 2016/17 is included in the following paragraphs. Further details can be found in the report presented to the Cabinet/Commissioners Decision Making Meeting on the 10 July 2017. The agenda for this meeting can be accessed through the Council & 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 2016/17 was £207.977m (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 £199,521. In December 2016 Council approved a budget increase of £8.456m largely to address in-year pressures within children's social care service. This increased the budget to £207.977m for 2016/17. The actual outturn of £205.244m was £2.733m less than this revised budget. This means that the actual additional call on reserves is £2.733m less than the £8.456m approved by Council.

The General Fund Working Balance remains at £11.269m, the same position as at 31st March 2016.

The Council's Revenue Reserves have decreased by £12.083m to £88.395m.

The principal reasons for the £2.733m underspend are:

- A £3.010m 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 £2.344m on Children and Young People's Services which is largely due to the volume of placements and the high level of costs associated with the placement of Looked After Children in out of authority placements and the use of agency staff to cover vacant Social Worker posts to provide essential leadership and direction to the service;
- A £1.711m underspend on Regeneration and Environment Services mainly as a result of savings against a number of budgets as a result of the moratorium on non-essential spend, savings on street lighting energy costs and the generation of additional grant income.
- A £1.160m 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 staff and non-staff savings from the moratorium on non-essential spend; and
- A £3.092m underspend in Council-wide Services arising from an underspend on capital financing budgets as a result of the Council being able to reschedule a market loan, changing interest rate forecasts after the EU Referendum, a reduced borrowing need in year and additional Government grant for business rates.

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 £1.304m relating to School Delegated Budgets. As can be seen below, this represents a reduction of £2.418m on the previous year. The reduction has arisen, in part, due to schools having drawn down balances to support spending in 2016/17 and, in part, due to the transfer of school balances from the Council's balance sheet as a result of 15 schools converting to an academy during the year.

2015/16 £m		2016/17 £m
0.038	Schools' Declared Savings	0.022
3.683	Unspent Schools' Budgets	1.282
3.722	Total	1.304

Housing Revenue Account Income and Expenditure Account

For 2016/17, the Income and Expenditure Account shows a surplus on the provision of HRA services of £12.475m. 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 £5.251m and led to an overall surplus of £7.224m for 2016/17 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 to mitigate the impact of the revised rents policy; and a decrease in the provision for bad debts resulting from the lower than expected impact from changes to the welfare benefits system.

The balance on the HRA at the end of 2016/17 was £35.156m. 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

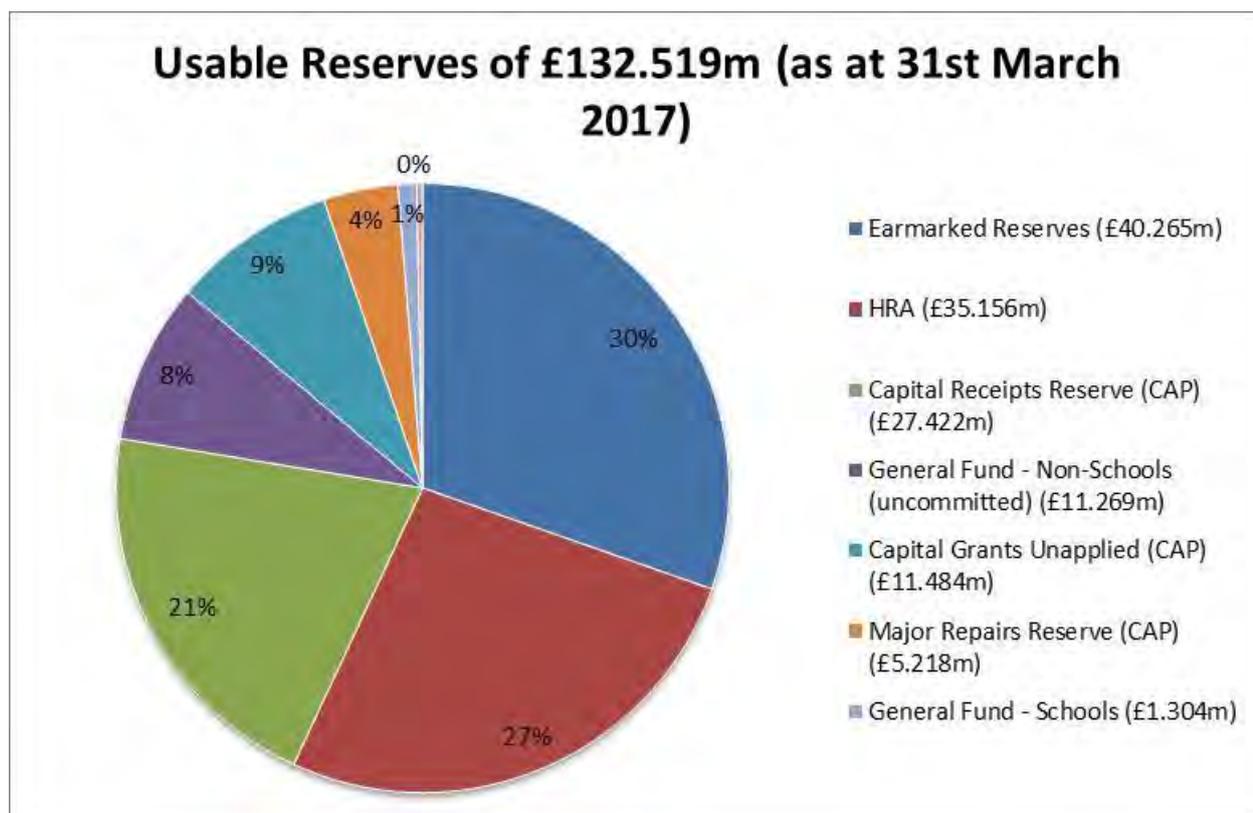
The Council manages its funds between two categories of reserves, usable reserves and unusable reserves.

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 2017, the Council held £132.519m of usable reserves. Included within this balance are capital reserves of £44.124m which can only be used to finance capital expenditure or repay debt. They cannot be used to support revenue directly.

This leaves £88.395m 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 2016/17 amounted to £56.490m and is analysed by Directorate as follows:

Directorate/Service	2016/17 £m
Children & Young People Services	6.580
Adult Care & Housing:	
- Housing Revenue Account	24.789
- Housing General Fund	3.595
- Adult Social Services	0.681
Regeneration & Environment	15.300
Finance & Customer Services	3.022
Council-wide Services	2.523
Total	56.490

The capital expenditure was financed as follows:

	2016/17 £m
Borrowing need	7.870
Major Repairs Allowance (MRA)	18.630
Grants & Other Contributions	16.488
Capital Receipts	7.949
Internal Funds (e.g. Reserves, etc.)	5.553
Total	56.490

Major items of capital expenditure incurred are as follows:

	2016/17 £m
<u>Non Housing:</u>	
Carriageway Resurfacing	5.077
Street Lighting	1.920
Acquisition of Forge Island	1.624
Improvements and Alterations to Office Accommodation	7.380
Social Care IT System	1.466
ICT Upgrade and Refresh Programmes	1.258
Improvements and Alterations to Academies and Special Schools	1.455
Improvements and Alterations to School Buildings	4.668
Various Academy Schools PFI lifecycle costs	1.475

<u>Housing Investment Programme:</u>	
Physically Handicapped Conversions / Improvements (Public)	1.919
Replacement of Central Heating Systems	3.121
Voids Programme	3.052
Refurbishment of Council Stock	8.797
Physically Handicapped Adaptations (Private)	1.820
District Heating Conversions	1.661
Strategic Housing Acquisitions	1.926
Furnished Homes	1.105

Treasury Management & Prudential Indicators

A summary of the Council's borrowing activities for 2016/17 is shown below. Further detail of the Council's Treasury Management activities and prudential indicators can also be found in the report presented to the Cabinet/Commissioners Decision Making Meeting on the 10th July 2017. 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:

2015/16 £m	Long Term Borrowing	2016/17 £m
446.597	Balance as at 1 April	459.305
	<u>Plus:</u>	
30.000	New long-term borrowing	40.000
0.000	Long-term borrowing repaid	0.000
(17.292)	Re-classified as temporary borrowing (repayable in the following financial year)	(52.299)
459.305	Balance as at 31 March	447.006

2015/16 £m	Short Term Borrowing	2016/17 £m
22.286	Balance as at 1 April	17.292
	<u>Plus:</u>	
13.000	New temporary borrowing	20.000
17.292	Re-classified from long-term borrowing	52.299
52.578		89.591
(13.000)	Repayments in the year	(20.000)
(22.286)	Repayment of prior year's reclassified long-term borrowing	(17.292)
(35.286)		(37.292)
17.292	Balance as at 31 March	52.299

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 2016/17. The accounting policies adopted by the Council are compliant with IFRS and have been applied in preparing the financial statements and the comparative information.

In response to changes in the 2016/17 Code there have been changes to the presentation of the Comprehensive Income and Expenditure Statement (CIES), Movement in Reserves Statement and segmental reporting.

From 2016/17, the service expenditure analysis in the CIES is based on that used for reporting internally to management rather than the standard analysis prescribed in the Service Reporting Code of Practice (SeRCOP). A key change is the treatment of support service costs or overheads. Under SeRCOP, support service costs are apportioned out to front line services to determine the total cost of providing a service. Under the new segmental reporting requirements, if support services are operated, managed and reported as a separate segment they are not apportioned across services but instead reported separately in their own right. This represents a major change to the presentation in the CIES and prior year comparatives in the 2016/17 accounts have been restated.

A new Funding and Expenditure Analysis has been introduced which 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.

It had been planned that the 2016/17 CIPFA Code of Practice would adopt the Transport Infrastructure Assets Code, resulting in a change to the measurement basis for the Council's highways related assets. The new valuation approach was expected to significantly increase the value of the Council's balance sheet. However the decision to introduce this change has been revoked and the plans to introduce the Transport Infrastructure Assets Code has been postponed for the foreseeable future.

Financial Outlook

Like all local authorities across the country, the Council continues to operate against an annually reducing budget from central Government and increasing costs and demand for services. There is an increasing dependence on the funds that the Council can itself generate locally, through Council Tax and the share of business rates retained. Alongside this there are frequently factors beyond local control, subject to national and global

decision-making, which increase the risks around how the Council can ensure it has the resources required to deliver the services that local people need.

Over the last 6 years (2011/12 to 2016/17) the Council has successfully responded to the significant and unprecedented financial reductions imposed on local government as part of the Government's austerity programme. Over this 6 year period, the Council has addressed a cumulative funding gap of £138m.

For 2017/18 the Council is required to achieve its plans to meet a further £24m funding gap to address the provisional finance settlement for the Council, include essential investment requirements, and reflect additional corporate savings.

In addition, since April 2013, local authorities have been required to manage an unprecedented transfer of financial risk through the Government's significant and ongoing reforms of both local government finance and welfare (benefits) systems. For example, the localisation of business rates retention and the abolition of Council Tax Benefit being replaced by a local Council Tax Reduction Scheme.

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 corporate plan priorities and key outcomes and puts in place a new, different relationship with its citizens, residents and other stakeholders.

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 climate of continued funding cuts from Government and the pace of growth in the local economy has made this strategy difficult to maintain.

Work is currently underway to review how we can further transform services to deliver further savings and to look for opportunities for joining up or rationalising service arrangements where it is sensible to do so and where it will reduce costs and/or increase efficiency.

However, the further planned government funding cuts over the period to 2019/20 mean that it is inevitable that some of the future savings the Council will have to deliver will inevitably impact on frontline services.

Further work is currently on-going to refresh the Council's MTFS to 2019/20 alongside developing budget savings proposals for 2018/19 & 2019/20. The MTFS refresh will also reflect the outcome of discussions currently taking place with the Clinical Commissioning Group (CCG) around the planned use of the additional resources allocated through the Improved Better Care Fund.

Signed.....



Judith Badger CPFA

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Date

30/6/17