

Good Practice Note: Management Commentaries

Enhancing the quality of local government annual accounts



 **AUDIT SCOTLAND**

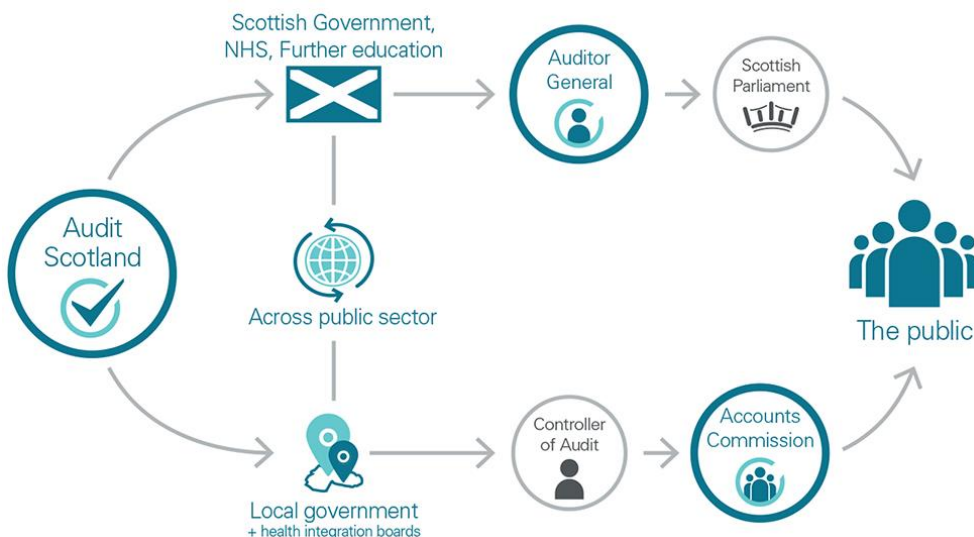
Prepared for local government bodies and appointed auditors

10 February 2020

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

Contents

Introduction	4
Section 1 A single story	6
Section 2 How the council has performed	10
Section 3 What worries senior management?	18
Section 4 Consistency	23
Section 5 Cut the clutter	25
Section 6 Clarity	29
Section 7 Summarise	30
Section 8 Explain change	33

Introduction

Purpose

1. Audit Scotland promotes high quality financial reporting in Scottish public bodies. Audit Scotland's Professional Support carries out reviews of annual accounts to identify and share examples of good practice reporting and highlight areas where enhancements can be made.
2. This Good Practice Note shares the findings from a review of the Management Commentaries included within the 2018/19 annual accounts of Scotland's 32 councils. It is intended to act as a catalyst for councils to enhance their own Management Commentaries.

Councils should use this Good Practice Note to assess and enhance their Management Commentaries

Context

3. Management Commentaries are intended to assist users of the financial statements to understand them and the council generally. They provide context for the financial statements, an analysis of past performance, and an insight into the priorities of the council and the strategies adopted to achieve its objectives.
4. Management Commentaries were chosen for a good practice review because narrative reporting generally has an increased profile with rising stakeholder expectations. Management Commentaries have been produced for several years which should have allowed ample time for good practice to develop.
5. The good practice review was carried out by a team in Professional Support with knowledge of the relevant financial reporting framework. However, the team does not have a detailed understanding of each council's particular circumstances or the specific underlying transactions.
6. Councils are encouraged to use the findings in this report to assess and enhance their own Management Commentaries to ensure they provide high quality information to stakeholders.

The examples presented in this note are all unaltered from Management Commentaries in councils' 2018/19 annual accounts

Statutory requirements

7. Regulation 8(2) of The Local Authority Accounts (Scotland) Regulations 2014 requires the annual accounts to include a Management Commentary prepared in accordance with statutory guidance. Finance Circular 5/2015 provides statutory guidance and requires a Management Commentary to include the following:
 - A fair review of the council's business, which should be a balanced and comprehensive analysis of:
 - the development and performance of the business during the financial year
 - the position of the council's business at the end of the year, consistent with its size and complexity.
 - A description of the principal risks and uncertainties facing the council.
 - Financial key performance indicators, as well as any non-financial performance indicators that the council considers relevant.
 - The main trends and factors likely to affect the future development, performance and position of the council's business.
 - A description of the council's strategy and business model.
 - References to, and additional explanations of, amounts included in the council's financial statements.
8. Finance Circular 7/2016 contains a requirement to direct users to the Annual Strategy and Annual Report on capital investment, treasury management, and loans fund liabilities.

9. The 2018/19 Management Commentary of each council was also considered by the appointed external auditor with a view to expressing opinions on whether it was consistent with the financial statements and included the above content required by the statutory guidance. As there were no qualified opinions, there is reasonable assurance that the auditors judged that minimum disclosure requirements were met. However, it should not be inferred that there is no scope for councils to improve the quality of their Management Commentaries.

Unqualified audit opinions do not mean there is no scope for improving the quality of Management Commentaries

Characteristics of a high quality Management Commentary

10. Beyond basic compliance with requirements, there are a number of characteristics of financial reporting which Professional Support believes make for a high quality Management Commentary. These are summarised in [Exhibit 1](#):

Exhibit 1

Characteristics of a high quality Management Commentary	A single story	These characteristics are based on those used by the Financial Reporting Council adapted for the public sector context
	How the council has performed	
	What worries senior management?	
	Consistency	
	Cut the clutter	
	Clarity	
	Summarise	
Explain change		

11. The remainder of this Good Practice Note is structured around these characteristics. It discusses and highlights good practice in relation to each one illustrated, where possible, with examples taken from councils' 2018/19 Management Commentaries. The note also includes points for councils to consider in striving to achieve good practice.

Contact points

12. The contact points in Professional Support for this Good Practice Note are:
- Paul O'Brien, Senior Manager – pobrien@audit-scotland.gov.uk
 - Neil Cameron, Manager – ncameron@audit-scotland.gov.uk.

Section 1

A single story

The narrative in the Management Commentary should be consistent with the information in the financial statements; significant points in the financial statements should be explained in the Management Commentary so that there are no hidden surprises

Linkages with financial statements

13. The Management Commentary should highlight and explain linkages between information in the Management Commentary and the financial statements. Linkages are relationships or interdependencies between facts and circumstances disclosed. It follows that the Management Commentary should not be prepared in isolation from the financial statements.
14. [Exhibit 2](#) illustrates an explanation of the linkages between the various financial statements:

Exhibit 2

Revenue - General Fund

The Council's financial performance is presented in the Comprehensive Income and Expenditure Statement, which can be seen on page 20. This statement has been prepared using International Financial Reporting Standards. To show the net position of the Council, it is necessary to adjust the Comprehensive Income and Expenditure Statement for statutory items that require to be taken into account in determining the position on the General Fund and Housing Revenue Account for the year. These are summarised in the Movement in Reserves Statement (page 17).

An Expenditure and Funding Analysis has been provided to reconcile adjustments between the Council's financial performance under the funding position and the surplus on the Provision of Services in the Comprehensive Income and Expenditure Statement. The Expenditure and Funding Analysis can be found in Note 2 and the Expenditure and Income Analysed by Nature in Note 3.

15. [Exhibit 3](#) provides an example of the Management Commentary comparing net expenditure in the Comprehensive Income and Expenditure Statement (CIES) with budgeted amounts:

Exhibit 3

Fig.2 Comprehensive Income and Expenditure Statement

	Net Spend £m	Net Budget £m	Variance £m
Strategic Policy, Transformation & Public Sector Reform			
- Directorate	0.600	0.634	0.034
- Strategic Policy & Economy	2.106	2.410	0.304
- Governance & Change	1.173	1.318	0.145
- Internal Audit	0.287	0.310	0.023
- Risk, Resilience & Safety	0.328	0.321	(0.007)
People			
- Directorate	0.592	0.525	(0.067)
- Schools & Learning	114.201	117.932	3.731
- Children, Families & Justice	19.943	20.118	0.175
- Human Resources, Digital Enablement, IT & Business Support	4.613	5.148	0.535
Place			
- Directorate & Business Support	1.020	0.892	(0.128)
- Services to Communities	7.276	7.182	(0.094)
- Communities	23.674	23.946	0.272
- Infrastructure Services	21.718	21.725	0.007
- Finance & Legal	7.172	7.512	0.340
Other Services	12.571	13.083	0.512
Facilities Management	2.702	3.394	0.692
Corporate Items	(3.406)	2.430	5.836
Tayside Valuation Joint Board	0.720	0.720	0.000
General Fund Net Expenditure	217.290	229.600	12.310

The Council spent £217.290 million during 2018/19 and achieved the following and much more:

- We registered 898 births and we are corporate parents of 265 children
- We teach 15,158 children every day, taking 3,000 of them to and from 59 schools and feeding 7,380 of them at lunchtime
- We engage young people in over 60 youth work projects, with over 400 young people attending Friday Night Projects
- 341 young people achieved Duke of Edinburgh Awards
- We have helped 86 adult learners to achieve a qualification

This example
also highlights
variances

..... and links
expenditure to
performance

16. [Exhibit 4](#) provides a helpful explanation of linkages between the CIES, Expenditure and Funding Analysis, and budget management reports:

Exhibit 4

Telling the Story

The Comprehensive Income and Expenditure Statement (CIES) on page 29 sets out the Council's funding and spending in accordance with accounting requirements which is different to the way that we report performance internally. The Expenditure and Funding Analysis (EFA) on page 25 provides a link between the East Ayrshire Performs budget management reports and the figures in the CIES. The reconciliation below will assist users of the Accounts to navigate from the East Ayrshire Performs year end management report through to the first column of the EFA on page 25 and to the CIES on page 29.

East Ayrshire Performs				Building the EFA				EFA Segment	EFA Column 1
Annual Budget	East Ayrshire Performs Outturn	Variance (favourable) / adverse	East Ayrshire Performs Outturn	Movements Contribution from Health & Social Care and Specific Grants	Movements amounts not included within Net Cost of Services	Net Expenditure chargeable to the General Fund & HRA Balances	Net Expenditure chargeable to the General Fund & HRA Balances		
2018/19	£m	£m	£m	£m	£m	£m	£m	£m	
Education	97,237	95,841	(1,396)	95,841	(5,485)	-	90,356	Education	90,356
Finance and ICT	8,498	7,818	(680)	7,818	-	-	7,818	Finance and ICT	7,818
Planning and Economic Development	5,826	4,198	(1,628)	4,198	-	-	4,198	Planning and Economic Development	4,198
Policy Planning and Performance Division	1,305	1,233	(72)	1,233	-	-	1,233	Economy and Skills Other Segments	1,685
Central Mgt Support Economy and Skills	1,413	0,452	(961)	0,452	-	-	0,452		
Housing and Communities	16,004	15,867	(137)	15,867	-	-	15,867	Housing and Communities	15,867
Ayrshire Roads Alliance	8,075	7,646	(429)	7,646	-	-	7,646	Ayrshire Roads Alliance	7,646
Facilities and Property Management	26,329	26,329	-	26,329	-	-	26,329	Facilities and Property Management	26,329
Human Resources	1,938	1,846	(92)	1,846	-	-	1,846	Human Resources	1,846

The arrow highlights that budget reports are the starting point in the Expenditure and Funding Analysis

Consistent narrative

17. The CIES shows the surplus or deficit on the provision of services prepared in accordance with proper accounting practices. Most councils tend to focus in the Management Commentary on the movement on the General Fund during the year which is different to the surplus/deficit in the CIES because of various statutory adjustments. That focus may be because the council has identified that users are more interested in the impact on the General Fund.
18. However, references to, for example, a surplus in the Management Commentary when the CIES is showing a deficit may be confusing to users. In order to avoid confusion, councils should clearly explain that they are referring to the position on the General Fund and set out the reasons why they consider that to be a more appropriate measure.

Holistic picture

19. A high quality Management Commentary provides stakeholders with a holistic and meaningful picture of a council's business model, strategy, development, performance, position and future plans.
20. The statutory guidance sets out a list of discrete disclosure requirements which could be met in a series of independent sections in a Management Commentary. It is often the case, however, that there are linkages between the requirements that, if highlighted and explained, will provide users with a greater insight. The aim is to promote a cohesive narrative flow and enable related information to be linked together.

The Management Commentary structure should allow a cohesive and clear narrative

Use of cross-referencing

21. It is often helpful to group together similar or related disclosures in the annual accounts, as this will help reduce duplication and enable linkages to be highlighted and explained in one place. Information which the statutory guidance requires to be included in the Management Commentary may be included elsewhere in the annual accounts. However, where that is the case, a cross reference from the Management Commentary must be included to satisfy the requirements. Cross-referencing must be clear and specific.
22. [Exhibit 5](#) provides an example of cross-referencing to information on risks set out in the Annual Governance Statement:

Cross-references must be included where required information is presented elsewhere in the annual accounts

Exhibit 5

Principal Risks and Uncertainties

Along with the challenge of financial resilience, the council also faces a number of non-financial risks impacting on communities including; welfare reform, unknown terms of EU withdrawal, inability to respond to changing demographics and the pace and scale of organisational change and delivery of services.

Risks have also been identified in relation to the internal workforce including; health and safety non-compliance and IT system failure. These risks are set out within the Annual Governance Statement along with progress and areas for improvement.

23. Cross-referencing is different to signposting which involves linking to complementary information usually outside the annual accounts. Signposted information does not meet the requirements of the statutory guidance as the Management Commentary should be able to stand on its own. The appropriate use of signposting to reduce clutter is discussed in Section 5.

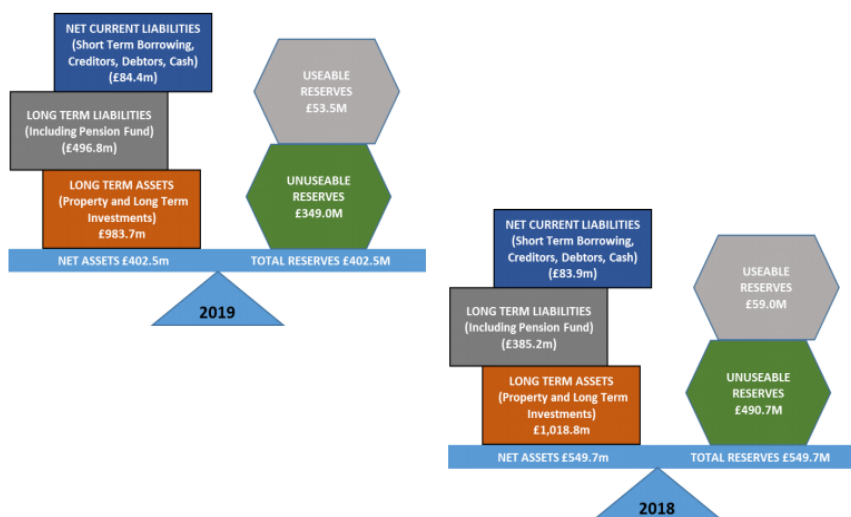
Explaining the financial statements

24. Information in the Management Commentary should provide context to the financial statements. It should provide additional explanations of amounts recognised, and explain the conditions and events that shaped the information contained therein.
25. Councils should aim to provide sufficient explanations in the Management Commentary so that there is no need in most cases for users to have to refer to the financial statements.
26. [Exhibit 6](#) provides a helpful and engaging summary of the Balance Sheet:

Exhibit 6

(g) The Balance Sheet

The diagram below summarises the Council's Balance Sheet as at 31 March 2019, with comparative information provided for last financial year. The Balance Sheet brings together assets and liabilities, year end balances, money owed to and by the Council and reserves. More information on the balance sheet is provided on page 37.



The Balance Sheet on page 37 summarises the Assets and Liabilities and shows a net worth of £402.5m. This is a reduction from last year due to a lower value of Assets of £34.4m and an increase in Liabilities of £112.8m. The main changes to the Council's Balance Sheet are explained below.

This presentation is helpful in understanding the Balance Sheet and also engages users

27. Explanations were often provided in the Management Commentary in respect of items such as capital expenditure and movements in reserves. [Exhibit 7](#) provides an example of an explanation of capital expenditure and linkages to slippage in capital programmes:

Exhibit 7

(b) General Fund Capital Programme 2018/19

In 2018/19 the final Council budget for capital investment was £45.7m (2017/18 budget £37.8m) with 67.2% of this being delivered. It should be noted that the 2018/19 General Fund Capital Programme is part of a three year plan and as such it is expected that there will be movement in spend across the years. Projects not delivered in 2018/19 will be completed in forthcoming financial years. The diagrams below identify the key projects and how these were funded. Further details are provided at Note 24.

General Fund Capital Expenditure £30.7m



General Fund Capital Resources £30.7m



28. However, explanations are also helpful in respect of complex matters such as statutory adjustments.

Summary of issues identified and points to consider

Issues identified in our review of whether the Management Commentary helped to tell a single story:



Most councils did not explain linkages between information in the Management Commentary and the financial statements

It was often not clear that references in the Management Commentary to a surplus related to the General Fund balance rather than to the CIES

Explanations of items in the financial statements were often absent particularly on complex matters

There was limited use of effective cross-referencing

Points to consider when considering whether the Management Commentary helps to tell a single story:



Stand back and consider whether the Management Commentary helps to tell a fair, balanced and understandable story

Make sure the Management Commentary helpfully explains the financial statements

Structure the Management Commentary in a way that allows a coherent and clear narrative

Avoid using a checklist approach which can lead to duplication and a disjointed narrative

Section 2

How the council has performed

The Management Commentary should give a clear and balanced account which includes an explanation of the body's strategy, objectives and business model and the salient features of its performance and position.

Strategy, objectives and business model

29. A council's strategy, objectives, and business model are inter-related concepts. The following table provides a suggested working definition of these key terms:

Term	Meaning	Comments
Strategy	Overall plan of action designed by the council, possibly with its partners, to achieve the objectives	The description should provide insight into a council's development, performance, position and future plans
Objectives	The council's primary goals	Objectives place the strategy in context and allows stakeholders to make an assessment of its appropriateness
Business model	What the council does and why	This should explain the services provided and the reasons for them, as well as how the council is structured

30. [Exhibit 8](#) provides an example of a council explaining how it will deliver its strategy:

Exhibit 8

Delivering the Strategy

Inverclyde Council has an established framework in place that integrates strategic planning with performance management to ensure the effective delivery of corporate and service outcomes. The main aspects of the framework are illustrated in the diagram on the right.

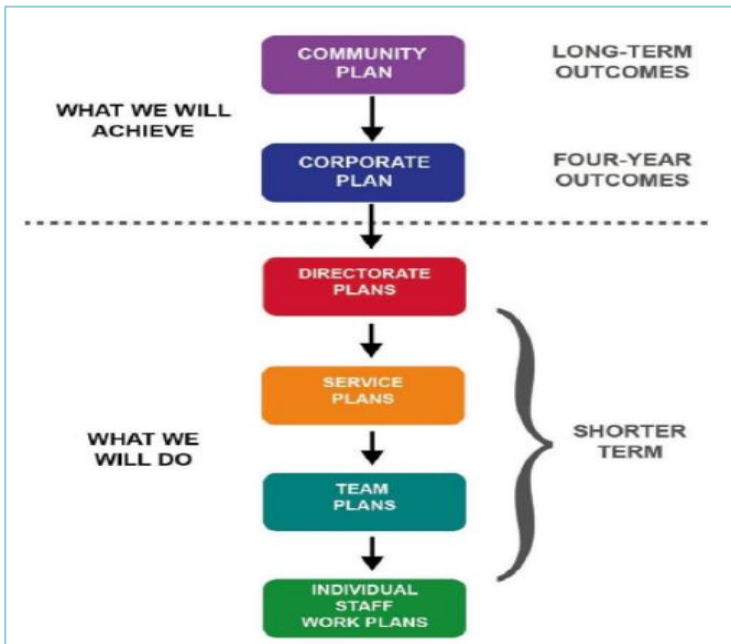
The Scottish Government publishes a set of "National Outcomes" for public services and engages with each local authority to reach agreement on local outcomes and measures which are set out in the LOIP 2017/22.

Inverclyde Council's Corporate Statement sets out the key outcomes the Council is committed to delivering with its Partners. Services demonstrate how their own activities link to the Council's vision and priorities through their Corporate Directorate Improvement Plans (CDIP). Consultation on the future vision and activities of the Council is undertaken through the Council's Citizens' Panel and through specific consultations.



31. [Exhibit 9](#) shows an example that links the strategic outcomes to operational plans:

Exhibit 9



This table was helpfully supported by narrative explaining the content of each plan

32. [Exhibit 10](#) provides an example that links strategic outcomes to performance and council spending:

Exhibit 10

Strategic outcome 3 - East Renfrewshire is a thriving, attractive and sustainable place for businesses and residents

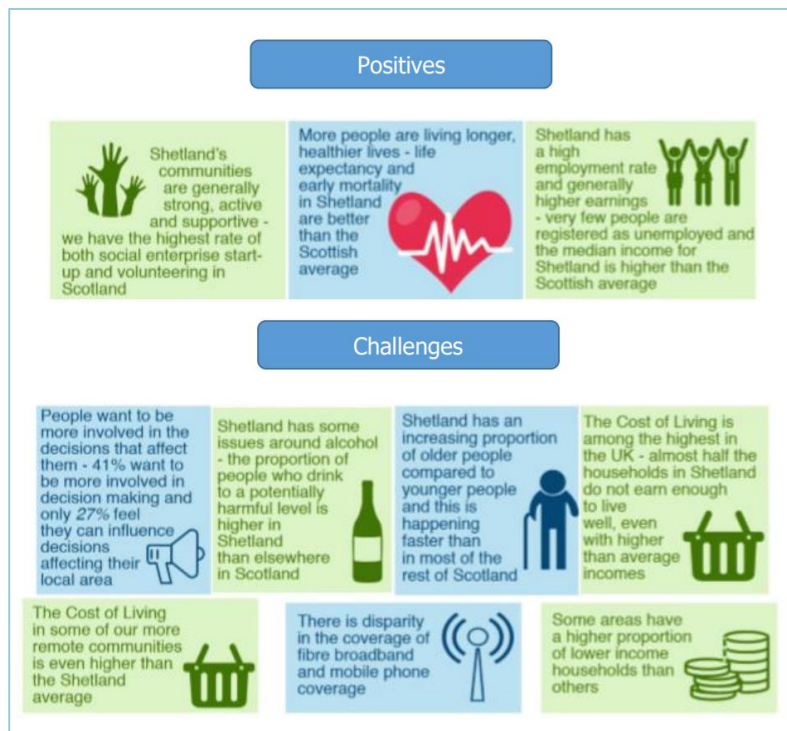
Our City Deal projects funded from the £44m investment secured in 2015 are progressing well. Greenlaw Business Centre in Newton Mearns opened in June this year. Over £11m is being invested in housebuilding over the next five year. The Council has set a target of building 200 houses by 2025, we are on track with 41 houses built this year with new tenants moving in during 2019. Our recycling rates are top in Scotland (67%), we have met our street cleanliness target and exceeded our target on the number of businesses supported by our Business Gateway Services. We have invested in our parks and greenspaces with additional resources used to improve facilities at Cowan Park in Barrhead and Neilston's Kingston Playing fields.

Supporting narrative provides further detail on the council's strategy and plans

Insight into priorities

- 33. The Management Commentary is required to provide insight into a council's priorities. One way of doing that is to set out the context within which a council determines its priorities. To be most useful, this should be specific to the council area.
- 34. [Exhibit 11](#) provides an example of a helpful summary of a council's view of the strengths in its area along with the specific challenges it faces:

Exhibit 11



Residents would find this information particularly helpful as it is specific to the area

Business performance and position

35. The Management Commentary is required to provide a balanced and comprehensive analysis of the development and performance of the council's business during the year, and the position at the year end.
36. The analysis should report on how successful the council has been in achieving its desired outcomes. It should address the positive and negative aspects of the development, performance, position and future plans of the council openly and without bias. The council should seek to ensure that stakeholders are not misled as a result of the presentation of, or emphasis given to, information in the Management Commentary, or by the omission of material information from it.
37. [Exhibit 12](#) provides an example of linking objectives to outcomes, with a balanced assessment of performance:

Exhibit 12



38. **Exhibit 13** shows an example of a table which helpfully summarises, for each of the council's priorities, past performance, performance during the year and future actions:

Exhibit 13

Political Priority Area	Progress to 2018/19	Progress in 2018/19	Planned Action 2019/20 onwards
Provide quality transport services within Shetland, and push for improvements in services to and from Shetland.	The Shetland Transport Strategy was refreshed over the course of the second half of 2017 and the first half of 2018. The process adopted an extensive engagement process, which identified six main issues that the refreshed strategy should address: Lifeline Transport; Transport Robustness; Community Support; Integration Support; Behavioural Change; and Change Management.	Development of the supporting draft delivery plan and performance indicators.	The supporting draft delivery plan was approved by the Zetland Transport Partnership in April 2019. The performance indicators are due to be reported late 2019.
Increase the supply of affordable housing in Shetland.	Over the two years from April 2016 to March 2018, 183 new houses were built (118 private housing and 65 social housing).	In 2018/19 62 new houses were built (46 private housing and 16 social housing).	Strategic Housing Investment Plan 2019/20 - 2023/24 to build 316 new affordable homes in the next five years.
Improve high-speed broadband and mobile connections throughout Shetland.	The Council has assisted staff in the Scottish Government who are preparing the Reaching 100% (R100) project. R100 should enable more settlements in Shetland to access high-speed broadband including some of the hard-to-reach places not included in the previous Broadband Delivery UK project.	The Council was awarded £1.91m from the UK Government's Department of Digital, Culture, Media and Sport (DCMS) to fund a network of full fibre broadband connections between public sector premises across Yell and Unst.	The delivery of R100 to begin in 2019. Work on the full fibre broadband connections expected to start in late 2019 with project completion expected mid 2020.

The corporate plan and progress report can be found on the Council's website:

<http://www.shetland.gov.uk/documents/OurPlan2016-20final.pdf>
<http://www.shetland.gov.uk/our-plan-progress-report.asp>

Inclusion of key performance indicators

39. The Management Commentary is required to include an analysis using key performance indicators (KPIs). These are the measures used by the council in determining how well the council is performing against its objectives and strategy. It is important that the disclosures provide an analysis of the KPIs and not just a list without comment. It should be clear to stakeholders how well the council is performing against its KPI targets.
40. The KPIs used in the analysis should be those that the council judges to be most effective in assessing progress against objectives or strategy, monitoring principal risks, or are otherwise utilised to measure the development, performance or position of the council.
41. Councils generally use the key financial ratios recommended by the CIPFA Directors of Finance Section as their financial KPIs. These cover aspects of performance applicable to all councils (on uncommitted reserve balances, council tax, financial management, and borrowing) which allows comparisons. However, it is likely that users would also find helpful the inclusion of local financial KPIs that measure performance against specific council objectives.
42. The Accounts Commission requires councils to report information on their performance in improving local public services, and progress against agreed outcomes. Councils are required to report on information drawn from the Local Government Benchmarking Framework (LGBF) in particular. This information is published on council websites rather than within the annual accounts.
43. However, the Management Commentary is also required to include relevant non-financial KPIs. A selection of the indicators reported elsewhere that are most important to each council should therefore be included in the Management Commentary. While signposting to the full suite of indicators is helpful, simply including a hyperlink without also including some analysis is not sufficient to meet the requirements of the statutory guidance.
44. **Exhibit 14** provides an example of reporting a selection of LGBF KPIs, while including a hyperlink to the other indicators:

Exhibit 14

The Local Government Benchmarking Framework (LGBF) provides a range of indicators that show how the Shetland Islands Council is performing over time and against other local authorities. The following table contains information on how the Council has performed. More data can be explored online at the LGBF website at: <http://www.improvementservice.org.uk/benchmarking/explore-the-data.html>

Directorate	2016/17	2017/18	% change	Future Improvement
Children's Services				
Cost per secondary school pupil	£10,996	£10,985	-0.10%	Annual National Improvement Framework Plans will continue to set out how the Council intends to close the poverty related attainment gap; A recently revised Mental Health Policy to ensure absences are being managed in the most effective way.
Cost per primary school pupil	£7,927	£7,656	-3.42%	
Cost per pre-school pupil	£5,669	£5,607	-1.09%	
Average tariff score	1,041	990	-4.90%	
Teacher sickness absence (working days)	5.12	7.30	42.58%	

45. Exhibit 15 provides two further examples of using KPIs to provide a balanced analysis of service performance which focus on changes from the previous year:

Exhibit 15

Local and National Statutory Performance Indicators 2017/18

The latest year's Statutory Performance Indicators (SPI's) for 2017/18 demonstrate improved performance on the year. This is a positive report of improving performance overall with 78% of SPI's either improving by more than 5% or performance was maintained. This compares to 76% for the year before.

Indicators that have shown a change of:



Care and Learning

- **Libraries** Number of visits per 1,000 population increased from 13,110 to 15,160
- **Children's Services** The percentage of Looked After Children in kinship care increased from 17.7% to 19.5%
- **Culture and Leisure** The number of customers of High Life Highland increased from 6.7m to 7.5m

Corporate Resources

- **Business** Total direct spend with Highland small and medium sized enterprises increased from 33.7% to 40.9%
- **Rates** The cost of collection per chargeable property decreased from £20.29 to £17.87

Community Services

- **Waste** The net cost of waste collection decreased from £78.27 to £62.82 per premise
- **Street Lighting** The cost of electricity per street lighting unit decreased from £39.32 to £34.99
- **Parks and Open Spaces** The net cost per 1,000 population decreased from £8,583 to £7,535

Development and Infrastructure

- **Planning** The cost per planning application has decreased from £3,684 to £2,672
- **Business** The number of businesses supported by the Council and its Business Gateway service increased from 1,061 to 1,191

Indicators that have shown a change of:



Care and Learning

- **Education** Children from deprived backgrounds receiving 5+ awards at SCQF Level 6 decreased from 11% to 9%

- **Education** School Exclusion rates (per 1,000 pupils) increased from 20.4 to 22.7
- **Children's Services** The average number of Looked After Children accommodated by the Council outwith Highland increased from 27 to 34

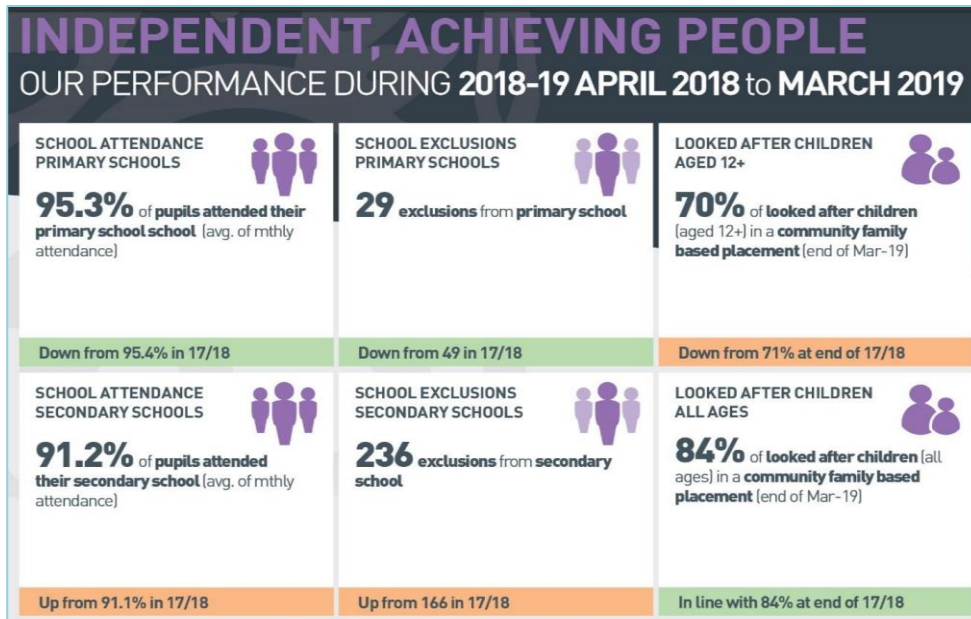
Community Services

- **Street Lighting** Street light failures completed within 7 days decreased from 91% to 69%
- **Housing** The homelessness case duration increased from 37 to 44 weeks

Development and Infrastructure

- **Planning** The average time per planning application increased from 10.2 weeks to 11.4 weeks
- **Business** The number of Business Gateway start-ups (per 10,000 population) decreased from 12.1 to 11.0

This example focuses on KPIs with the biggest changes in performance



46. Sufficient additional information that enables stakeholders to understand each KPI used in the Management Commentary is helpful. For example, users may benefit from the following information being explained for each KPI:
- its definition and calculation method
 - its purpose
 - the source of underlying data
 - any significant assumptions made.

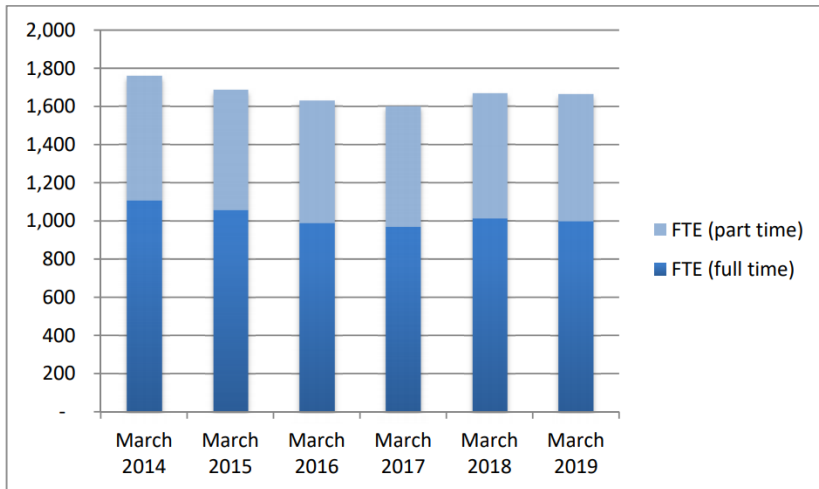
Trends and factors

47. The Management Commentary is required to include the main trends and factors likely to affect the future development, performance or position of the business. Trends and factors may:
- arise as a result of the external environment in which the council operates. The Management Commentary should cover significant features of the external environment (e.g. the legal, regulatory, macro-economic and social environment) and how those influence the business.
 - arise from internal sources. The discussion of internal trends and factors will vary according to each council's local circumstances but could, for example, include changes in workforce numbers or the benefits expected from capital investment.
 - have affected the council in the year under review or may give rise to opportunities or risks that may affect its future plans.
48. The Management Commentary should set out the council's analysis of the potential effect of the trends or factors identified on its development, performance, position or future plans.
49. [Exhibit 16](#) provides an example that demonstrates how a council's workforce has changed over recent years:

Trends and factors may be internal or external

Exhibit 16

The chart below demonstrates how the Comhairle's workforce has changed in recent years:



Future Workforce Plans form part of the Comhairle's Forward Strategy.
3

50. Where practicable and relevant, the trend or factor should be quantified and the source of the evidence underpinning it identified. [Exhibit 17](#) provides two examples to illustrate this:

Exhibit 17

Financial Planning

The Council has been required to make significant budget savings for a number of years in order to ensure that it responds to continued funding reductions, rising cost pressures and complies with its statutory requirement to set a balanced budget whilst meeting the needs of local residents. A total of £132.430m budget savings have been achieved in the past six years.

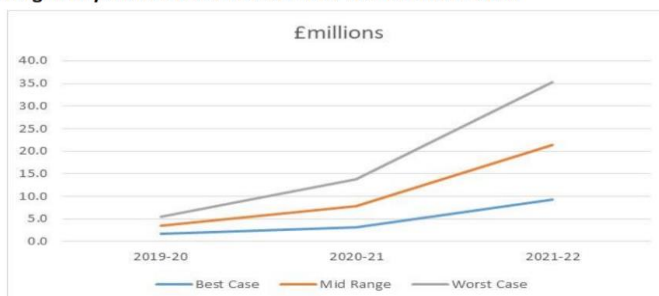


For 2018/19, Services have achieved total savings of £15.586m against the approved target of £20.017m (78%) with the shortfall of £4.431m also fully achieved through alternative savings and management action. Of the total shortfall, £3.236m of the original approved savings are in place for achievement in 2019/20 with alternative savings/plans in place to achieve the small remaining balance of £1.195m during 2019/20.

2019-20 Budget Strategy

A three year financial outlook covering the period 2019-20 to 2021-22 was kept up to date during the financial year and presented to Members at the Policy and Resources Committee in May, August, October and December 2018. Exhibit 10 shows range of scenarios based on the report presented to the Policy and Resources Committee on 13 December 2018.

Exhibit 10: Budget Gap 2019-20 to 2021-22 as at 13 December 2018



51. Given the influence that trends and factors might have on many aspects of the council’s development, performance, position or future plans, the linkage of this type of information to other areas of the Management Commentary and the annual accounts more broadly will be particularly important.

Summary of issues identified and points to consider

Issues identified in our review of whether the Management Commentary explained how the council performed:



Most councils did not describe the strategy, objectives and business model effectively

Councils often tended to focus on the positive aspects of their performance rather than giving a balanced analysis

Some councils merely included a link to a website for KPIs without providing an analysis

Most councils did not identify or discuss any trends

Some councils did not provide explanations for budget variances

Most councils did not report progress against agreed savings

There was often a focus on the process for strategic planning rather than the actual outcomes

Points to consider when explaining how the council performed:



Describe linkages between the strategy, objectives, business model and outcomes

Provide a balanced analysis of how successfully the council has performed

Identify and include financial and non-financial KPIs in the analysis of performance

Include the main trends and factors likely to affect the future development, performance or position of the council’s business

Report progress against agreed savings

Place KPIs in context, for example, by including a target and comparative information, trends or benchmarking details

Explicitly and clearly state what a KPI says about the council’s performance

Section 3

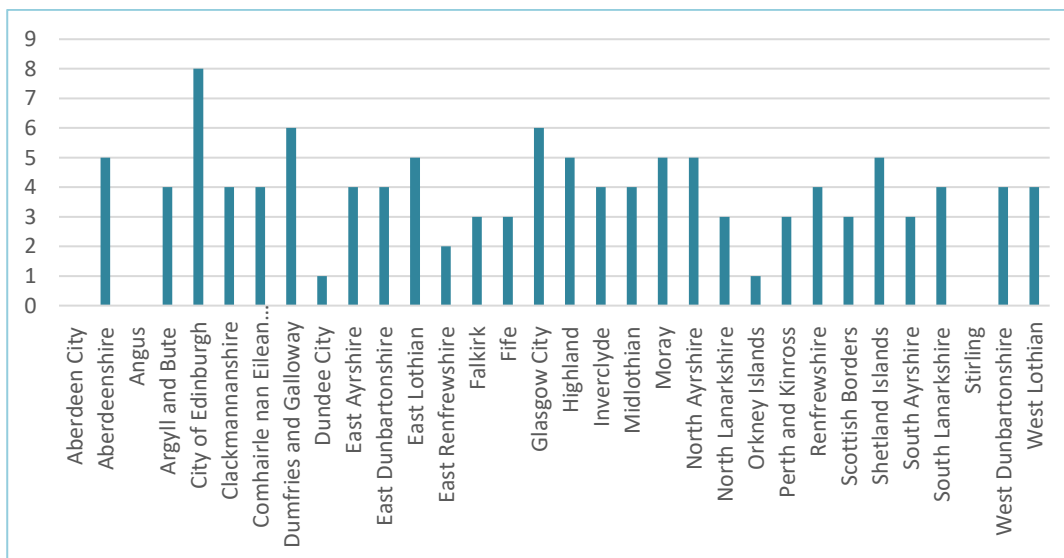
What worries senior management?

The risks and uncertainties described in the Management Commentary should genuinely be the principal risks and uncertainties that concern the council's senior management. The descriptions should be sufficiently specific that the reader can understand why they are important to the council. The report should also describe the mitigating actions taken by the council to manage the impact of its principal risks and uncertainties. The links to accounting estimates and judgements should be clear.

Number of risks and uncertainties

53. The Management Commentary should include a description of the principal risks and uncertainties facing the council. The risks and uncertainties described should be limited to those considered by senior management to be important to the development, performance, position or future plans of the council. They should generally be matters that senior management regularly monitor and discuss because of their likelihood or the magnitude of their potential effect on the council.
54. Councils should consider the full range of business risks, including both those that are financial in nature and those that are related to service delivery. Principal risks should be disclosed and described irrespective of how they are classified or whether they result from external factors over which the council may have little or no direct control.
55. The review identified a significant variation in the number of risks reported. [Exhibit 18](#) provides a summary of the number of risks disclosed by each council:

Exhibit 18



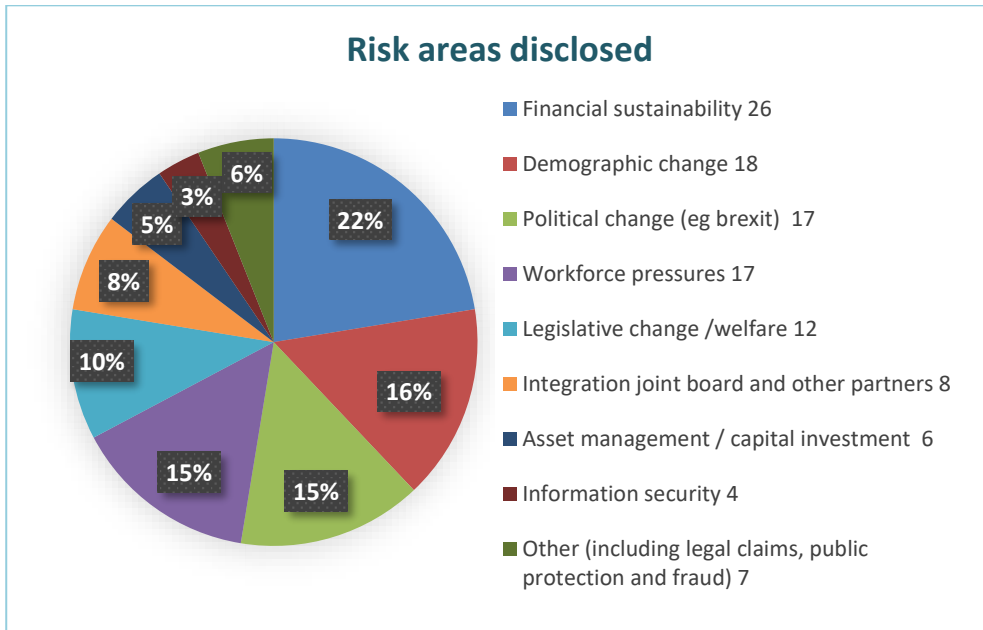
9 councils disclosed more than 4 risks

3 councils did not appear to report any risks

56. Professional Support suggests that councils should generally expect to disclose three or four risks. More than four, and councils should consider whether they are genuinely all principal risks. Fewer than three, and councils should consider whether they have omitted a principal risk.

57. [Exhibit 19](#) classifies the total number of risks across all councils into broad subject areas, and shows the number of councils disclosing each classification:

Exhibit 19



Specific descriptions

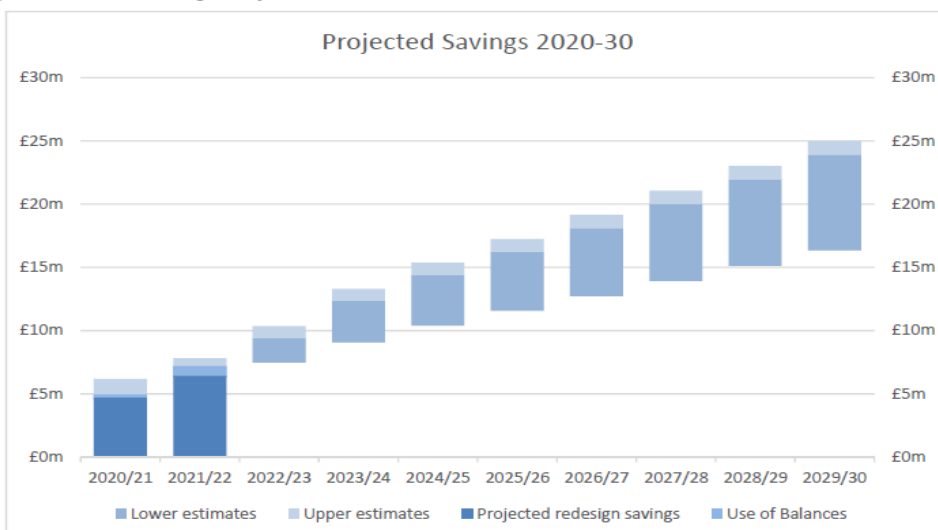
58. A risk or uncertainty may be unique to the council, a matter that is relevant to the sector, or something that applies to the business environment more generally. In all cases, the descriptions of the principal risks and uncertainties should be specific so that stakeholders can understand why they are important to the council. This might include a description of the likelihood of the risk, an indication of the circumstances under which the risk might be most relevant to the council and its possible effects.

59. [Exhibit 20](#) provides an example of a concise description of a principal risk facing a council:

Exhibit 20

Figure 7 shows the range of scenarios that the Comhairle considered when setting its budget in February 2019. The key sensitivities that are likely to have a material impact are pay awards, inflation and levels of government grant. This shows that the implementation of the Service Redesign is essential to bring the Comhairle to a balanced budget at the end of its term in office.

Figure 7: Comhairle Budget Projections 2020-30



This shows sensitivity analysis around projected savings considered when setting the budget

60. Where the risk or uncertainty is more generic, the description should make clear how it might affect the council specifically.
61. [Exhibit 21](#) provides two examples of generic risks:

Exhibit 21

Health and Social Care - Increased demand for services and associated demographic changes results in significant financial pressures which, when compounded by historic funding arrangements and traditional service models, creates a significant risk that the Council fails to implement and/or deliver appropriate health and social care arrangements, as required by the Edinburgh Integration Joint Board.

The implications of Brexit for the Council in terms of potential changes to procurement, data protection, planning, environmental legislation, employment law and grant funding have been assessed and contingency plans are being kept under review as new information is made available. The Council's strategic risk register includes analysis of the potential impact on the Council from the triggering of Article 50, and the Corporate Management Team reviews the position at each of its meetings.

Generic risks
should be made
specific

Mitigating actions

62. An explanation of how the council manages or mitigates the principal risks and uncertainties should also be included to enable stakeholders to assess the impact going forward.
63. [Exhibit 22](#) provides an example of a specific risk and the related mitigating actions:

Exhibit 22

Key Risks and Uncertainties

The Council maintains a Corporate Risk register and reports progress on a quarterly basis to the Policy & Resources Committee. The latest report was presented on 13 May 2019 and can be found here: <http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=24037>

The following table highlights the key risks and uncertainties, and mitigating actions:

Infrastructure Maintenance	Mitigating actions
The Council invested heavily in infrastructure at the time when the oil industry was taking off. This infrastructure was funded from income generated from the oil industry. That infrastructure is now ageing and will need to be replaced, however, the financial situation is now tighter which will mean that it will be challenging to finance this.	The current Asset Investment Plan focuses on the maintenance of existing assets in order to prolong their useful economic lives. This should mitigate against the risk of immediate failure. In order to address the longer - term replacement of assets, a Borrowing Policy was approved by Council on 11 December 2013. Other measures in place include: MTFP, budget monitoring and scrutiny, clear and robust roles and responsibilities for managers and financial procedures and regulations.

64. The disclosure of risk management or mitigation might be enhanced with the discussion of the reporting and monitoring process, for example, through disclosures that explain:
- the council's appetite for risk
 - how often the risk is reviewed
 - by whom the risk is reviewed.
65. Risk management and mitigation could also be linked to a council's overall approach to risk management and internal control included in the Annual Governance Statement.
66. [Exhibit 23](#) provides an example of a table that summarises identified risks, the potential impact and the mitigations in place:

Exhibit 23

Risk theme	Governance	Protection	Resources
Risk title	External change	Child and Adult Protection	Financial constraints
Potential risk	External factors out with the Council's control may adversely impact on ability to fulfil objectives and deliver services	Council and HSCP fail to provide adequate protection of children and adults	Current, planned or expected levels of service cannot be delivered due to Government funding reductions
Potential effect	Requirement to re-allocate resources, failure to deliver services to an acceptable level or drive desired improvements. Restrictions on budget, reputational damage	Accident, incident or crime resulting in harm or abuse to child or adult. Legal prosecution/civil litigation. Reputational damage. Financial impact of any prosecution or claims	Failure to deliver key services or meet change in service demands
Mitigations	<ul style="list-style-type: none"> -Horizon scanning. -Watching brief on national environment. -Business Continuity plans. -Civil Emergency Response plans. -Dissemination of COSLA/Cipfa information. -Council reserves 	<ul style="list-style-type: none"> -Governance by Adult Officers Group, Multi Agency Public Protection arrangements, Adult Protection and Child Protection Committees. -Pan Ayrshire training. -Management guidelines, protocols and paperwork. -Initial response team. -Ayrshire wide Social Work response team. -Internal and multi-agency audits and file review. -Adult Protection Practice Review Group. 	<ul style="list-style-type: none"> -Annual budget setting aligned with priorities. -Medium term financial plan in place. -Level of reserves sufficient in the medium term. -Participation in COSLA groups. -High level of Member awareness.

Future focus

67. The Management Commentary should describe how the principal risks might affect the council's future plans. Information on how a fact or circumstance might affect the council should be included when it is material.
68. [Exhibit 24](#) provides an example:

Exhibit 24

Following allegations last financial year of procurement irregularities regarding around £2.1 million (including VAT) of highway spending spread over six years a financial analysis of transactions has indicated a loss of £0.512 million to the Council (excluding investigatory and other costs) compared to it having carried out the work in house. The Council has commenced steps to seek to recover the loss.

Accounting estimates and judgements

69. There are likely to be linkages between the financial risks reported and the accounting estimates and judgements disclosed in the notes to the financial statements.
70. It is helpful to users if these linkages are highlighted and, where relevant, discussed.

Summary of issues identified and points to consider

Issues identified in our review of whether the Management Commentary explained what worried the senior management:



Some councils did not disclose any risks and uncertainties

Most councils did not set out any mitigating actions

Few councils described how the principal risks might affect the council's future plans

Most councils did not highlight linkages with accounting estimates and judgements disclosed in the notes to the financial statements

Points to consider when explaining what worries the senior management:



Make sure it is genuinely the principal risks and uncertainties that are disclosed. Generally, expect to report three or four risks

Explain the actions being taken to manage or mitigate the principal risks and uncertainties

Describe how the principal risks might affect the council's future plans

Highlight linkages to accounting estimates and judgements

Section 4

Consistency

Figures referred to in the Management Commentary should be consistent with, or clearly reconciled to, the equivalent amounts in the financial statements with any differences clearly explained.

Consistency with Expenditure and Funding Analysis

71. The net expenditure presented in the CIES reports a council's audited financial performance for the year. However, councils generally referred to budget outturn information rather than to the CIES when they were explaining financial performance in the Management Commentary. Where that is the case, it is expected that the budget outturn information should agree to the first column in the audited Expenditure and Funding Analysis (as illustrated at Exhibit 4). This will then automatically reconcile the budget outturn information to financial performance in the audited CIES.

Reconciliation

72. Where there are differences between budget outturn information and the Expenditure and Funding Analysis, a reconciliation is important so that users can relate the outturn information to the audited amounts in the CIES. [Exhibit 25](#) provides an example of a helpful reconciliation from the CIES to the General Fund balance and budget outturn:

Exhibit 25

Exhibit 3: Reconciliation of Comprehensive Income and Expenditure Statement to Revenue Budget Outturn

	£000	£000
Deficit on Provision of Services		(24,086)
Remove statutory adjustments that don't feature in budget outturn:		
Depreciation	22,128	
Impairments of Asset charged to services	11,887	
Capital Funding	(19,349)	
CFCR	(575)	
Pension Adjustment	20,587	
Statutory Repayment of Debt	(9,211)	
Repayment of Finance Leases	(3,783)	
Transfers to/from Other Statutory Reserves	(207)	
Other Adjustments	1,747	
		23,224
Movement In General Fund Balance		(862)
Adjust for earmarkings:		
Released sums earmarked to service budgets 2018-19	6,705	
Supplementary estimates agreed during 2018-19	32	
Budgeted Surplus in 2018-19 transferred to General Fund (for capital)	(2,408)	
Contributions to earmarked reserves 2018-19	(4,585)	
		(256)
Revenue Budget Outturn		(1,118)

Reasons for adjustment

73. There may be legitimate reasons for using budget outturn information for explaining financial performance. It is helpful to users if an explanation for the use of budget outturns is provided.

Summary of issues identified and points to consider

Issues identified in our review of whether the Management Commentary was consistent with the financial statements:



Budget outturn information in the Management Commentary often did not agree to the Expenditure and Funding Analysis. In most cases a reconciliation or explanation for the differences was not provided

Explanations were not generally provided for why budget outturn information rather than audited net expenditure was used to explain financial performance

Points to consider when ensuring the Management Commentary is consistent with the financial statements



Consider using figures based on the audited CIES when explaining performance

Make sure that budget outturn information in the Management Commentary agrees with, or as a minimum is reconciled to, the first column in the audited Expenditure and Funding Analysis

Set out the reasons why it is considered better to use budget outturn information to explain financial performance

Section 5

Cut the clutter

Important messages, policies and transactions should be highlighted and supported with relevant context and not obscured by immaterial detail that causes clutter. Cross-referencing and signposting should be used effectively, and repetition avoided.

Important messages

- 74.** The Management Commentary should be comprehensive, but it should also be concise. There does not have to be a tension between these two requirements.
- 75.** Comprehensiveness reflects the breadth of information that should be included rather than the depth of information. The Management Commentary does not need to cover all possible matters in detail to be considered comprehensive. It should include the information required by the statutory guidance that is necessary for an understanding of the council.
- 76.** Conciseness is achieved through the efficient communication of the required information. There is a risk of confusing conciseness with excessive brevity in the level and type of information provided.
- 77.** A comparison of the length of each council's 2018/19 Management Commentary shows a significant variation. The number of pages is summarised in [Exhibit 26](#).

The Management Commentary should be comprehensive but concise

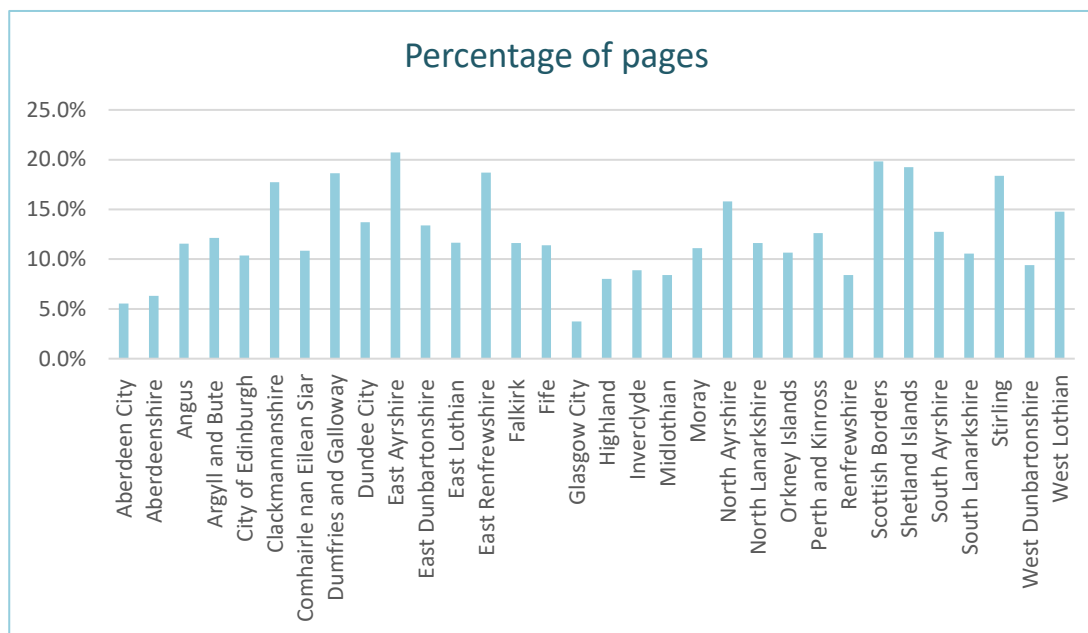
Exhibit 26



The average length of the Management Commentary was 14 pages. The longest was 28 pages and the shortest 6

- 78.** The variation in length was not always explained by the relative size of the council; the smaller councils often had the longest Management Commentary, and the larger councils the shortest.
- 79.** For additional context, [Exhibit 27](#) shows the length of each Management Commentary as a percentage of the overall length of the annual accounts:

Exhibit 27



The proportion ranged from 4% to 21%

- 80.** Professional Support suggests that councils should generally aim for their Management Commentary to be between ten to fifteen pages in length. If more than fifteen pages, councils should consider whether there is clutter leading to the main messages being lost. If less than ten pages, councils should consider whether it is overly brief and so does not include all the necessary information.

Relevance of disclosures

- 81.** Councils should take care to ensure that all the information included in the Management Commentary is relevant to its circumstances.
- 82.** Boiler-plate wording refers to generic disclosure which could apply to any body that gives no additional useful information to users of the accounts; it should be avoided. While taking standard wording from another source can be of assistance, a council should take care to tailor the wording to its specific circumstances.

Relevance is fundamental to useful information

Immaterial detail

- 83.** Only information that is material to users should be included in the Management Commentary. Materiality is an aspect of relevance that is specific to each council based on the nature or magnitude of the effect of the information, judged in the particular circumstances. Due to the nature of the information contained in the Management Commentary, and the purpose it serves, qualitative factors will often have a greater influence on the determination of materiality than when making materiality judgments in respect of items in the financial statements.
- 84.** Both financial and non-financial information could be material. Determining materiality requires the council to apply judgement based on their assessment of the relative importance of the matter to the council's development, performance, position or future plans.
- 85.** Immaterial information should be excluded as it can cause clutter which obscures the key messages and impairs understandability.

Materiality is a council-specific aspect of relevance

Repetition

- 86.** The duplication of information should generally be avoided as it usually leads to unnecessary volumes of disclosure detracting from the understandability and usefulness of the annual accounts as a whole. In some cases, it may be necessary to repeat certain pieces of information, however this should be limited to circumstances when this would tell the council's story more effectively.

87. The appropriate use of cross-referencing (explained in section 1) should help to avoid unnecessary duplication. Where an item is adequately addressed in one part of the annual accounts, it can be included elsewhere by cross-reference.

Use of signposting

88. Signposting is a means by which attention can be drawn to complementary information that provides more detail on a matter disclosed in the Management Commentary. The Management Commentary may be considered as the top layer of information for stakeholders. As some users may require a greater level of detail, the Management Commentary can be used to signpost to other complementary information.
89. Signposting is different to cross-referencing. The Management Commentary must meet the requirements of the statutory guidance without users having to refer to signposted information. Signposts should make clear that the complementary information does not form part of the Management Commentary.
90. Signposted information may be located either within (e.g. an appendix) or separately from (e.g. a link to a website) the annual accounts. Where separate from the annual accounts, it is helpful to include a hyperlink.
91. [Exhibit 28](#) provides an example of signposting by including hyperlinks to more detailed information on performance:

Signposting to complementary information can reduce the length while providing access to detail

Exhibit 28

Performance

The Council is committed to being a high performing Council with a culture of performance improvement inherent in everything we do. The Council's performance and improvement framework, Aberdeenshire Performs, supports the delivery of the Council's vision and the priority outcomes identified in [The Council Plan 2017-2022](#) a summary of which is reported below for 2018/19.

The Council publishes an Annual Performance Report in September each year which is available to the public on the Council's website at <http://www.aberdeenshire.gov.uk/strategy-and-performance/about-performance/>. The 2018/19 Annual Report will be considered by Aberdeenshire Council on 26 September 2019 at which time, full and detailed reporting across all eleven Council Priorities will be available.

All Scottish Councils report a range of performance data as part of the Local Government Benchmarking Framework. The framework covers most major areas of public service delivery in Scotland and includes information about the costs of services, the outcomes being achieved and how satisfied residents are with services. To see how Aberdeenshire Council compares to other Councils visit <http://www.improvementservice.org.uk/benchmarking/explore-the-data.html>

92. An important exception to the normal rules on signposting is set out in Finance Circular 7/2016 which contains a requirement to include direct users to the Annual Strategy and Annual Report and which provides additional information on capital investment, treasury management, prudential indicators and the loans fund.
93. As no description or analysis is explicitly required, the inclusion of a reference to the strategy and report is sufficient to meet the requirement. However, the inclusion of narrative can explain and highlight some key points. [Exhibit 29](#) provides an illustration of helpful narrative:

Exhibit 29

Long-Term Investments

Financial investments are covered by the Council's Investment Strategy 2018, which sets out the overarching investment approach to complement the Council's Medium-Term Financial Plan, to achieve investment returns that are sufficient to enable an annual sum to be withdrawn to support the Revenue Budget and which protect the annual sum withdrawn from the impact of inflation, and to mitigate investment risk by the diversification of asset classes, global coverage and a number of fund managers.

The Investment Strategy is supported by an Annual Investment and Treasury Strategy report, which includes more detail on capital and treasury activities, including key treasury indicators. It can be found at http://www.shetland.gov.uk/about_finances/

This council helpfully provided a hyperlink to the report

Summary of issues identified and points to consider

Issues identified in our review of whether the Management Commentary contained clutter:



Some councils included lengthy descriptions of a wide range of matters rather than succinctly focussing on key aspects

Some councils went into excessive detail on certain items

Many councils appeared to be using boiler-plate wording

A few councils did not include a reference to the Annual Strategy and Annual Report on treasury management

Some councils directed users to other documents but did not provide a hyperlink or the link did not work

Points to consider when reducing clutter:



Aim for the Management Commentary to be between ten to fifteen pages in length

Include the necessary breadth of information in a concise way

Ensure information is relevant to the council

Use judgement to assess the relative importance of relevant information

Consider the appropriate use of signposting to allow the user to access complementary information

Avoid excessive detail about a large number of matters

Consider the presentation of the Management Commentary as a whole

Section 6

Clarity

The language used should be precise and explain complex accounting and reporting issues clearly; jargon should be avoided.

Plain language

94. The language used to support and explain the information in the Management Commentary is fundamental to users' understanding. The Management Commentary should be written in plain language.
95. Where the subject matter is of a technical nature, it is particularly important that the language used is as clear as possible. [Exhibit 30](#) provides an example of explaining the recognition of a provision for equal pay in the CIES and the statutory mitigation of the impact on the General Fund:

Exhibit 30

As part of the 2017/18 annual accounts the council created a provision of £35.055 million in respect of its historical pay protection liabilities. During the course of 2018/19 negotiations with claimants concluded with a methodology for the settlement of all aspects of equal pay claims being agreed. In light of this agreement the provision has been increased by £469.734 million. This is reflected as a material item within the Comprehensive Income and Expenditure Statement and brings the total provision in respect of all equal pay liabilities to £504.789 million.

In line with statutory guidance the financial impact of the increase in provision has been mitigated through the annual accounts until actual payments have been made. It is anticipated that settlement payments will start to be paid from on or around June 2019 subject to securing appropriate funding.

The Management
Commentary
should be written in
plain language

Use of jargon

96. The excessive use of technical language (i.e. jargon) should be avoided where possible. Where the use of technical terms is necessary, they should be clearly defined and used consistently.

Summary of issues identified and points to consider

Issues identified in our review of whether the Management Commentary was clear



Some councils used language that did not engage the reader

Jargon was prevalent in many Management Commentaries, but some councils did not explain it

Points to consider when providing a clear Management Commentary include



Use plain language

Avoid using jargon or explain it where it cannot be avoided. Consider providing a glossary of key terms

Section 7

Summarise

Items should be reported at an appropriate level of aggregation and infographics should be supported by, and consistent with, accompanying narrative

Aggregation to appropriate level

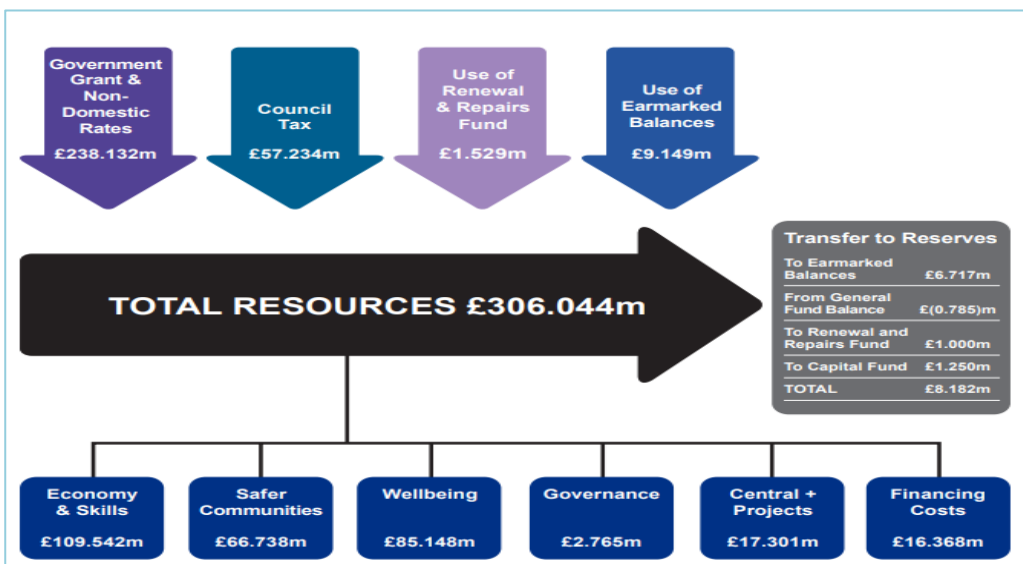
- 97. Financial information in the Management Commentary should be aggregated to an appropriate level as this helps users to see key information without getting lost in excessive detail.
- 98. Professional Support suggests that the analysis of development, performance or position provided in the Management Commentary should be aggregated at a level consistent with the segmental analysis in the Expenditure and Funding Analysis. As a general rule, the number of segments should not exceed ten.

Items should be reported at an appropriate level

Infographics

- 99. The method of presentation can significantly affect the understandability of information in the Management Commentary. The most appropriate method of presentation will depend on the nature of the information but, in addition to narrative, may include tabular, graphical or pictorial methods.
- 100. [Exhibit 31](#) provides an example of infographics being used to provide an analysis of financial resources:

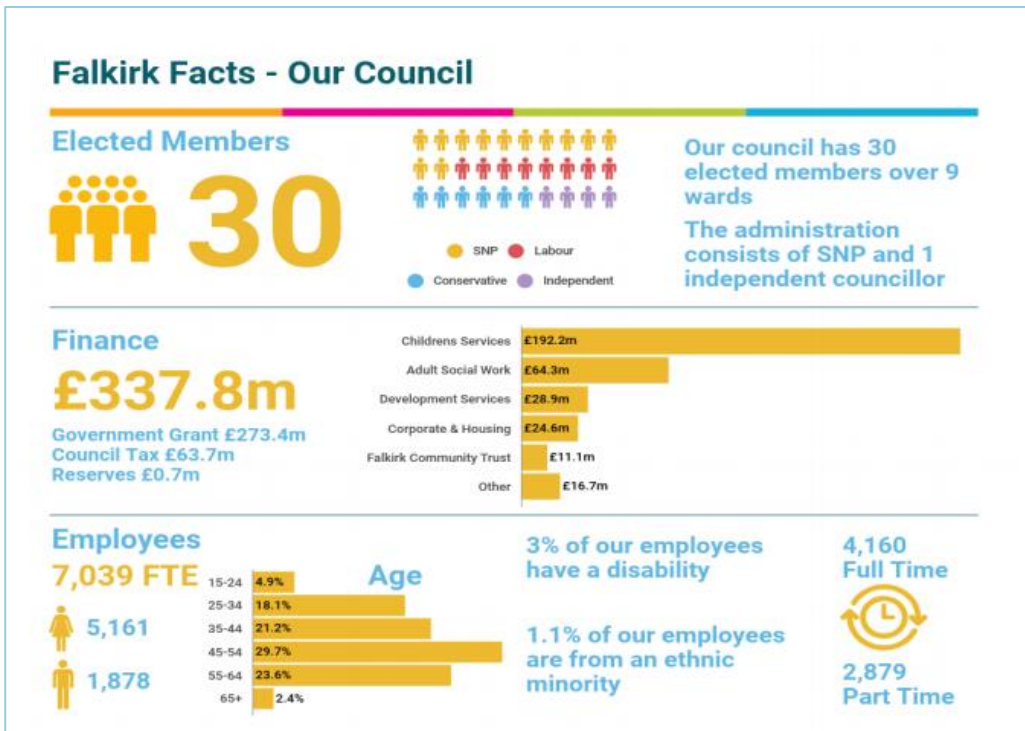
Exhibit 31



Infographics can convey complex information more clearly than narrative alone

- 101. [Exhibit 32](#) provides a further example of infographics being used to present key facts about a council in a colourful and engaging manner:

Exhibit 32



102. As a rule, infographics should not be of such a length as to span a number of pages. Where necessary, larger tables can be split into a number of smaller separate tables.

Accompanying narrative

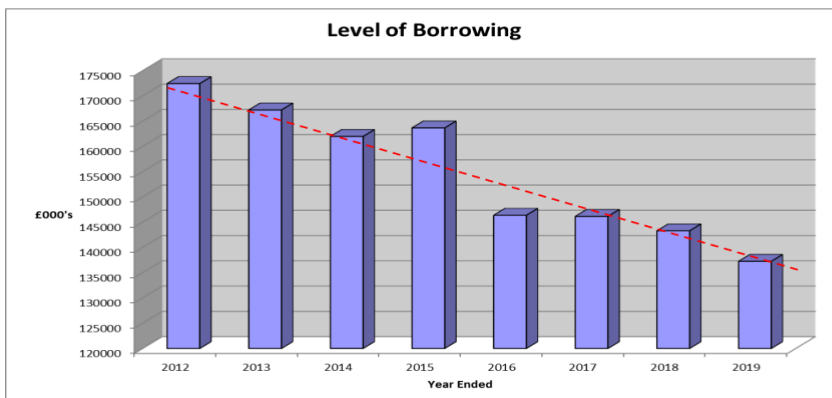
103. In most cases tables and other infographics should be supported by accompanying narrative. It is important that the narrative is consistent with the message conveyed by the infographic.

104. [Exhibit 33](#) provides an example where narrative was used to expand on a diagram:

Exhibit 33

This is a decrease of £6.0m on the previous year's external debt position of £143.2m. This movement is made up of £5.071m repayments towards external borrowing and repayments of £0.968m towards PFI and other Finance leases. The Council continues to work towards reducing the overall external debt in line with its policy set out in the Treasury Management Strategy.

In the year, £8.8m (2017/18 £9.0m) external interest and principal repayments of £7.4m were paid in relation to this borrowing.



Summary of issues identified and points to consider

Issues identified in our review of whether the Management Commentary properly summarised information



Some councils did not use any infographics beyond basic tables

Some tables spanned a number of pages and were difficult to follow

Segmentation was sometimes not consistent with the Expenditure and Funding Analysis

Points to consider when summarising information in the Management Commentary



Aggregate information at an appropriate level consistent with the segmental analysis in the Expenditure and Funding Analysis

Consider which information could be better presented using tables or more innovative infographics

Use accompanying narrative to support the infographics, where appropriate

Section 8

Explain change

Significant changes from the prior period, whether matters of policy or presentation, should be properly explained.

Explaining significant changes

105. Users of the accounts are often interested in changes from the prior year. Management Commentaries should provide explanations for matters such as:

- new principal risks or significant changes in likelihood, probable timing, or possible effect
- any changes in the method for calculating KPIs
- changes in council's management structure
- significant differences in the level of performance.

106. [Exhibit 34](#) provides an example of explaining a council restructure:

Exhibit 34

During 2018/19 a restructure of the Council took place to better integrate services and draw out greater efficiencies. The Council consolidated into 3 new service delivery portfolios, each with their own Strategic Director. The portfolios being: People, Place and Partnership & Performance. Committee structures have also been aligned with this managerial structure since August 2018. The design is predicated on more integrated, generic and flexible role design, as well as flexibility of working and deployment of staff. This approach will maximise the efficiency and effectiveness of service delivery for communities and the employment opportunities for staff.

The restructure also introduced a Strategic Leadership Group (SLG) to provide strategic management of the Council, comprising the Chief Executive and three Strategic Directors. Corporate and Service Management is provided by the Extended Senior Leadership Group (ExtSLG), comprising the SLG and the Statutory post holders, including the Chief Officer of the Integration Joint Board (IJB).

Changes in financial statements

107. The Management Commentary should also explain significant changes in key amounts in the financial statements.

108. [Exhibit 35](#) provides two examples of helpful explanations that provided users with additional insight:

Exhibit 35

Balance Sheet

The Balance Sheet summarises the Council's assets and liabilities as at 31 March 2019 and explanatory notes are provided. The net worth of the Council has decreased by £54.478m from £297.145m as at 31 March 2018 to £242.667m as at 31 March 2019. The major changes are set out in Exhibit 4.

Exhibit 4: Main Balance Sheet Changes

	31/03/2019 £000	31/03/2018 £000	Change £000	Main Reason
Long Term Assets	624,055	614,628	9,427	Asset revaluations.
Current Assets	92,072	89,714	2,358	Small increase in short term investments and cash held offset by a reduction in short term debtors at the end of the year.
Current Liabilities	(62,455)	(47,065)	(15,390)	Increase in short term borrowing taken to ensure there was sufficient cash over the year end period.
Long Term Liabilities	(411,005)	(360,132)	(50,873)	Increase in the pension liability offset by a reduction in long term borrowing.
Total	242,667	297,145	(54,478)	

This example explains changes in the Balance Sheet from the previous year

The pension liability can fluctuate significantly year on year. Exhibit 5 shows the pension liability over the last three years.

Exhibit 5: Pension Liability at the end of the financial year

	2018-19 £000	2017-18 £000	2016-17 £000
Pension Liability	(113,768)	(56,442)	(149,777)

Most of the changes each year can be attributed to the change in financial and demographic assumptions. The change in discount rate assumption has the most significant financial impact on the pension liability. An increase in the net discount rate will decrease the assessed value of liabilities as a lower value is placed on benefits paid in the future, the opposite is also true, a decrease in the discount rate will increase the liability. The discount rate decreased by 0.3% from 2.7% as at 31 March 2018 to 2.4% as at 31 March 2019.

Further detail on the pension estimates are included within Note 30.

This example explains longer-term changes in one item

Improvement in Management Commentary

- 109.** Councils should be striving to continuously improve the quality of their Management Commentary. The prior year Management Commentary should be seen as a base level on which to improve rather than a standard to replicate. Professional Support recommends that councils aim to be able to demonstrate a marked improvement in their Management Commentary compared with the previous year.
- 110.** The structure and presentation of the Management Commentary should be reviewed annually to ensure it continues to meet its objectives in an efficient and effective manner. While consistency facilitates comparison from year to year, that should not override innovation where this will improve the relevance and understandability of the information presented.
- 111.** Each year's Management Commentary should be written specifically for the year under consideration. The relevance of a matter may vary relative to other matters over time. As a minimum, there should be obvious differences to reflect new risks and challenges, and changes in priorities.

A council should aim for a marked improvement in its Management Commentary

Summary of issues identified and points to consider

Issues identified in our review of whether the Management Commentary explains change:



Most councils did not explain changes from the prior year

The review did not identify any councils which highlighted significant improvements or changes in the presentation of the Management Commentary

Points to consider when explaining change in the Management Commentary:



Provide an explanation of significant changes in the development, performance, position or future plans of the council

Explain key changes in the financial statements

Aim to improve the content and presentation of the Management Commentary annually

Good practice note: Management Commentaries

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