

FINANCIAL REPORTING: PROPOSALS FOR DISCUSSION

1 Purpose

- 1.1 To discuss and invite comment from Members on future financial reporting and format of financial reports.
- 1.2 At its meeting in November 2017, the Finance and Services Scrutiny Committee invited proposals on a “refresh” on the information being presented in relation to finance and the Quarterly Digest. The objective of the review is to ensure that Members get sufficient information to understand the financial position of the Council and any inherent and emerging risks.

2 Recommendations/for decision

- 2.1 To review and discuss options for future reporting of financial information and the format of financial reports.
- 2.2 To agree Option1 as an interim amendment to the existing reporting structure to meet Members immediate needs for information whilst additional information needs are determined
- 2.3 To agree Option 2, which involves a longer-term review of reporting requirements ensuring that Member requests for information can be determined and embedded in future reports.

3 Supporting information

- 3.1 The Organisation has faced significant changes in the last 2 years with major organisational restructuring and changes. There is an opportunity now to review the reporting of financial information across the Council to ensure it is fit for purpose and meets the requirements of its multiple users.
- 3.2 Although the information being communicated on financial matters will need to be common across all stakeholders, the emphasis and detail will vary with report type and with the audience.
- 3.3 This report focuses on information requirements for Members.

4 Financial Reporting Requirements

- 4.1 The Council needs to demonstrate how well money is being spent and then report it appropriately.
- 4.2 In reporting financial information, there are a number of good principles that need to be give consideration.
 - Members should receive regular and accurate accruals based financial information including the risks to the financial position and how they are being managed.
 - Information at Committee level should be summarised appropriately, and information should be directive with e.g. “at a glance” detail to inform next steps/ required actions
 - Ensure level of information is commensurate with decision making required
 - Committee Members should receive regular and accurate information on the balance sheet
 - There should be a link to operational performance and financial reporting.

- Reporting needs should be informed by users
- Reposts should be user friendly and understandable, and financial terminology explained
- Reports should be indicative that financial performance is aligned to operational performance.
- Allow for exception reporting/ RAG rated, with appropriate risks highlighted

- 4.3 Financial information will be required for many audiences and information provide will vary in content, regularity of reporting, depth of information provided and emphasis of “messaging”.
- 4.4 The key objectives to ensuring the “right message, at the right time” for each of the groups is to understand the information requirements for each group. It is hoped that the discussion arising from this report will inform future reporting requirements
- 4.5 This report focuses on financial management information being presented to the Members. The Organisation will also receive annual financial information as part of the Annual report.

5 Options considered

- 5.1 A number of options, for discussion and review, on how to address reporting needs in the future is outlined below.
- 5.2 Currently, the production of the “Finance Quarterly Digest” is the main vehicle for the communication of the Organisations financial performance. It has been in place for several years. Recent feedback from Internal Audit (Internal Audit Report 2016/17– Budget management) and feedback from the Finance and Services Scrutiny Committee suggests that whilst it provides a good financial overview of the Council, some additional information is required.
- 5.3 Option 1 explores interim changes to the current reporting format. This option allows for immediate progression on changes to reporting of information.
- 5.4 Work is already progressing to review the content of the Qtr3 digest for 2017/18 and the following is being suggested:
- a move to a more narrative report - taking the variance analysis from the tables to a narrative report.
 - The narrative report will give an overview of the financial position and provide additional narrative on exceptional areas only by portfolio
 - An organisation overview will be produced with a report on costs and income, and the net position. The spend will also be split between pay and non-pay costs to give further granularity of detail. This can be at portfolio level.
 - subjective level analysis will be available ... e.g. spend on areas of interest e.g. agency spend /forecast by Portfolio.
 - The report will identify variance to plan and outline actions plan/corrective actions being taken to address emerging issues.
 - Additional narrative on cash and treasury
 - Performance against capital budgets

- There were some comments raised by members re: budget profiling. We will aim to review this when reporting and comment as appropriate.
- Aim to produce within 6 weeks of end of period

- 5.5 Option 2 would involve a longer -term project to develop reporting requirements for the organisation and Members.
- 5.6 In preparing this report to the Finance and Services Scrutiny Committee, it should be recognised that any changes to the reporting agenda will need to be iterative and development of reporting processes will need to be discussed with key stakeholders and will also be dependent on system reporting capability.
- 5.7 The timing and regularity of reporting will also be considered. As a general guide, monthly reporting is good practice. The Quarterly Digest is currently produced quarterly.
- 5.8 Finance and Services Scrutiny Committee meeting should be getting the big picture. The challenge will be to present the detail in a comprehensive manner, without excessive in-depth detail by portfolio.
- 5.9 The reporting systems will also need to be reactive and report on emerging issues.
- 5.10 Finance Services and Scrutiny Committee meeting should consider issues by Exception.
- 5.11 Information will need to be highlighted in a way which helps councillors understand the impact of the variances on the budget and what remedial action can be taken.
- 5.12 There is no one model of a financial management system that suits all organisations.
- 5.13 The key measures for financial management should be cash resources, operating results, balance sheets and financial Key Performance Indicators (KPIs).
- 5.14 The list below indicates some reports that would useful indicators of financial performance. Reports can be developed and shaped to suit needs.

Income and Expenditure (I&E)

- Organisational I&E – Year to date Plan / Actuals/ Variances to plan
- Organisational I&E - In month performance (plan/actual/variances)
- Organisational Income and Expenditure – Annual budgets/ Forecast outturn/ variances
- Organisational Month by month expenditure levels (to assess trends)
- Organisational Month by month income levels (to assess trends)
- Information on Budget profiling and impact of budget profiling
- What are we spending our money on?
 - Subjective level reporting – staff and non-pay
 - Income by type
- Performance against Procurement savings
- Trend information: Last years outturn as indicator
- Overview of Risk analysis: Key risks and actions being taken to address
- Overview of Financial Opportunities:Regular review financial opportunities

Balance sheet reporting/ Financial reporting to include:

- Treasury Management information: levels of cash / rolling cash flow
- Treasury Management: Detail of Investment balances
- Treasury Management: Detail of borrowings
- Use of balances – risk and opportunities
- Balances on Reserves ... and likely commitments/ cash outflow over time
- Debt: Aged profiled of debt, monthly changes in bad debt provision

Key Financial Performance Indicators

- Payment information: performance against payment terms
- Key KPIs in relation to finance ... including e.g. creditor and debtor invoices raised
- Other “performance” indicators may also be identified in relation e.g. to Customer activities

- 5.15 Increasingly, for Organisations, financial information is presented as part of an overall report on performance generally. Currently, the Quarterly Digest does not make direct references to non-financial data to support the review of the financial position.
- 5.16 The Council has, however, already made some progress to producing integrated performance reports through its “Business Intelligence Project”.
- 5.17 The Business Intelligence Project is responsible for development of integrated performance management information, providing metrics that can help the senior management team monitor overall performance. A Dashboard is being developed.
- 5.18 In developing a view of Reporting across the Council, consideration will be given to all existing work streams to ensure work programmes are aligned within agreed objectives.
- 5.19 There is no one model of financial management system that suits all organisations. As part of the exercise, it is intended to review reporting practices and reporting in similar organisation, to understand what good may look like. This may be used to inform the future development of reporting at the Council.
- 5.20 The project will also consider any training needs of Members in relation to financial reporting. All reports produced should be fully understood by users.

6. Reasons for Recommendation

- 6.1 The Finance and Services Scrutiny Committee have asked for a review of the information presented through the Finance Quarterly Digest.
- 6.2 A number of options have been proposed in this report. The phased approach to the changes is proposed to allow Members time to consider the options presented in the paper.
- 6.3 Feedback from Members will help shape and inform the future for financial reporting.

7. Resource implications

- 7.1 It should be recognised that any changes to the reporting agenda will need to be iterative and development of reporting processes will need dependent on system reporting capability.
- 7.2 All financial information should come from the Council Tech1 financial system. This will ensure integrity and consistency of reporting and ownership of the information from the Finance team.

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Background Documents

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