

# **TELLING THE WHOLE STORY**

THE FUTURE OF STAKEHOLDER  
REPORTING IN LOCAL  
GOVERNMENT

**May 2008**



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Contact: Alison Scott  
Policy and Technical Directorate  
CIPFA  
3 Robert Street  
London  
WC2N 6RL  
Fax: 020 7543 5600  
E-mail: [alison.scott@cipfa.org](mailto:alison.scott@cipfa.org)

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## 1 EXECUTIVE SUMMARY

- 1.1 Stakeholder reporting by local government has developed over recent years in a haphazard fashion, mirroring the complex ongoing debate about the role of local government, its autonomy and financing that was most recently played out through the Lyons Inquiry. Just as that debate sought to strike a better balance between centralism and local community leadership, so this new positioning needs to be reflected in more coherent and focused performance reporting to local government's multitude of external stakeholders.
- 1.2 CIPFA is therefore now looking to generate a discussion on the future of stakeholder reporting in local government that reflects this fundamental debate about local government's roles and accountability, and goes wider than financial reporting. CIPFA's aim is to stimulate external reporting that encompasses the ambitions, achievements and performance of local authorities against their key corporate and service objectives, is dynamic, and relevant to government's needs, but more especially, to local residents.
- 1.3 CIPFA's vision is of re-invigorated reporting in local government that:
  - provides a sense of place that is individual to the organisation and is delivered through a vibrant document
  - is accessible and is produced for the whole authority/community, not just those with a financial background
  - helps to close the gap between low public perception and local government's overall improving performance
  - enables the authority to be held to account for performance and looks forward as well as backwards
  - addresses accountability and stewardship in a way that is meaningful
  - tackles over prescription by central government
  - addresses issues that matter locally such as sustainability/inclusion/ community cohesion/leadership and is owned by the leaders of the organisation and other community leaders.
  - would be a standard for UK local government reporting & could potentially be a standard for other UK and international public sector reporting
  - underpins all external reporting, including that which is primarily financial in nature and that which is not.
- 1.4 The key to opening up the debate is to look beyond current requirements and restrictions. This 'think piece' is aimed at all stakeholders, in order to generate interest and debate in stakeholder reporting for the 21st century.
- 1.5 This consultation paper seeks to provide a summary of current requirements and policy developments, highlight existing best practice in both the private and public

sectors and provide some initial thoughts on how local government stakeholder reporting could be developed.

1.6 The proposals are not in themselves intended to supersede the financial reporting requirements of the Code of Practice on Local Authority Accounting; they deal instead with how those statements fit into the wider reporting framework. It is recognised however that there is an argument for simplification and reform of those accounting statements as we progress towards International Financial Reporting Standards, and this will be carried out as part of that process in parallel to, but linked to, this discussion.

1.7 Readers are asked to keep in mind when reading this paper that:

- There is a real opportunity to be radical
- We should seek to establish user requirements both in terms of who they are and their legitimate requirements
- We may wish to seek changes to the current legislative framework.
- We do need to pick up on external environment developments & issues – sustainability/ community empowerment/ third sector and partnership/ inclusion as well as how information is likely to be accessed in the future.
- We should continue to develop self assessment and challenge by individual authorities of their own performance.
- The role of independent audit needs to be recognised

1.8 There are a number of questions asked throughout the paper. These are intended to stimulate debate but other comments will be welcomed as will alternative ideas and suggestions.

## INTRODUCTION

The general theme of this paper is that what is now needed is a fundamental review of external stakeholder reporting in local government and the nature of the reports to be produced in future. Our contention is that it is the individual council that is best placed to determine how it will interact with its stakeholders. The aim is to bring together financial reporting with performance and strategic planning information to provide a single high level picture of an individual local authority.

## 2 INTRODUCTION

- 2.1 Local government faces an ever present dichotomy between the competing demands of providing its citizens with services that fulfil local needs and increase citizen satisfaction and the demands of a centralised performance regime. As a result its current reporting framework is a mixture of figures and statistics aimed at meeting the needs of statutory reporting and the requirements of inspectors. Descriptive reporting is aimed at citizens but may not contain sufficient solid data for local authorities to be held truly accountable by their electorate. This does not help the sector to rebut effectively the casual allegations of waste and inefficiency that are all too often heard.
- 2.2 Local government has the potential to build on the steps taken towards increased self regulation and some welcomed relaxation in the inspection regime. With recent reductions in the burden of reporting from central government and an increased emphasis on the needs of local people, there is a welcome window of opportunity to push forward the agenda for local government.
- 2.3 Local government has previously discussed narrative reporting as set out by the Financial Reporting Statement<sup>1</sup>. It would clearly be inappropriate for the public sector just to adopt this statement, not only because of the increased burden it could place on authorities if opportunities were not taken to rationalise current requirements at the same time but also because of the missed opportunity that this would represent to reflect the far wider role local authorities play in the development of society.
- 2.4 The general theme of this paper is that what is now needed is a review of the information that is currently externally reported, to distil overarching themes for all such reporting in local government within which it is the individual council that is best placed to determine how it will interact with its stakeholders.
- 2.5 It is hoped that local authorities will grasp the opportunity presented by this current debate to rethink its approach to the provision of information.

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<sup>1</sup> The Statement of Best Practice Reporting 'The Operating and Financial Review' supersedes Reporting Standard 1; both are published by the ASB.

## POLICY DRIVERS

Local government will continue to be a major player in the provision of public services. Structural and governance arrangements are likely to continue to evolve and partnership working is likely to gain greater and greater focus. Community engagement and involvement remains local government's overriding objective and the exploitation of modern communication methods with effective reporting will be an important waypoint towards the final destination.

### 3 POLICY DRIVERS

3.1 A number of current initiatives have implications for the form of stakeholder reporting that will be required in future. Although these initiatives have different remits, they tend to incorporate similar themes:

- they reinforce the prominent role of local government in the delivery of services. While funding arrangements or local structures may be amended, there is no real prospect of a single central solution. The 2007 White Paper model of strong and essentially local communities is not challenged;
- there is recognition of the need to promote freedoms and flexibilities for local government, particularly clearly expressed by the White Paper and the Lyons report;
- accountability is seen as a concern in each case, with a corresponding need to develop a better performance management framework. The need for improved engagement with the individual is seen as central;
- that in turn points at the importance of providing better information on performance in its widest sense

3.2 However, what is clear is that local government will be required to work in a constantly evolving service delivery climate. Authorities are less likely to be both commissioner and provider for all services. They will work with a far greater range of partners to provide services. These partners will range from large commercial organisations to small local charities. All will be key to the citizen in their view of the service they receive from local government and their views will continue to be increasingly area rather than organisation focussed.

3.3 To help meet the challenges presented by current policy, many councils have seen a need to overhaul the way they engage with their communities. Local government already uses a variety of methods and tools to communicate and engage with its stakeholders. It has a sound track record in implementing new technologies to improve communication. At the same time it must take account of the need to include those who are excluded from use of these technologies either through access or ability. Any new reporting code will need to embrace these developments if it is to be fit for the future.

3.4 IDeA and DCLG have undertaken useful work in this field, particularly through the Connecting with Communities (CWC) initiative. They emphasise the importance of citizen intelligence, covering such matters as:

- who they are
- where they live
- what services they use
- how they use them
- what their experience of using them is

- what they really want or need
- how they would prioritise what they want.

3.5 Councils consulted as part of this review have emphasized a number of lessons they have learned as part of a drive to engage with those citizens:

- thought needs to be given to methods of communication when communicating with an external audience. Different communities will require a more tailored approach, taking into consideration issues such as language and access.
- assumptions should not be made about people's abilities to use different methods; offering a range of methods from which people can choose the most suitable is often the best way forward.
- it is important for a council to understand the diversity of an area and which communities face barriers to effective two-way communication. This involves considering what ways in which the whole range of communities that live in the area are being reached, informed and listened to. In this way, a council can build an understanding of what a 'user-focus' means. The approach actively promotes diversity and equality rather than running the risk of labelling an ever-increasing number of communities as 'hard to reach'.
- councils should be clear about when people are being informed about an issue and when they are being consulted. This builds trust and confidence among residents that their views are being listened to. When people have been consulted, they should be made aware of how their views were used and in what ways they helped to shape services.

3.6 Local government will continue to be a major player in the provision of public services, whether directly or through partnership arrangements. Local government needs to embrace this role and look to reporting that will emphasise its strengths and allow for real engagement with its stakeholders including the communities it serves. Reporting in the future will need to embrace new ways of communicating with those citizens it serves as well as encompassing partnerships and area based services. It will also need to consider more real-time reporting direct to citizens.



## CURRENT STAKEHOLDER REPORTING REQUIREMENTS

External reporting is a key way that local authorities give an account of their activities, their performance and their impact to stakeholders, especially to their 'funders'. The principal corporate reports need to underpin that taxpayer relationship. Is current reporting in local government still more weighted towards government and regulators than to local citizens, service users and taxpayers?. Is it clear how reporting expresses accountability, when joint working and partnerships like Local Strategic Partnerships and Multi Area Agreements are taken into account?

## 4 CURRENT STAKEHOLDER REPORTING REQUIREMENTS

- 4.1 For all the large number of reports that local government produces for its many stakeholder groups, is it possible to say that the current raft of information is providing real accountability for the performance of local authorities or is it adding to the general confusion as to who exactly is responsible for what?
- 4.2 Despite recent moves to reduce the overall reporting burden on local authorities, a high degree of regulation has led to a large number of detailed reporting requirements that, whilst each has a different focus, mainly reformulate the same set of underlying, often financial, data. Thus we have a plethora of confusing and overlapping reports that have their basis in the core financial and performance data of the authority, but do not help Local Authorities themselves to make full use of the data and their interrelationships or to provide focus to the non-financial elements of reporting. This section considers the problems involved in terms of:
- to whom are reports being made?
  - what is the focus of the various reports?
  - who is being held accountable?

### **To whom are reports being made?**

- 4.3 Local government is subject to a variety of reporting requirements: there are statistical reports for national aggregation and comparison, such as the budget summary reports that give an overview of council tax nationally, but also inform capping decisions; there are reports designed to track national performance indicators or to brigade local government towards national strategies (these may start as mandatory and then relax, such as Capital Strategies); there are performance reports for government departments, such as social care and education, that are mined by regulators; there are still some grant reports to funders; there is some prescription about public facing reporting, such as Best Value Performance Plans and accounting. There are also self assessment reports prepared for regulators, including their value for money arrangements.
- 4.4 These requirements are constantly refreshed as the policy context renews itself, and as resources are applied both to creating new reports and (less often) to weeding out those that have become outdated. Much of this information becomes publicly available in a variety of ways so it may well be that there is no latent demand for further information. However the concern remains that responsiveness to local users' needs will take second place once the huge array of centrally prescribed performance reports described above have been produced.
- 4.5 Much of this data has a financial component, but for most returns this needs specific tailoring. Consequently there is a considerable cost associated with the compilation of the various statutory and other returns often with little benefit in terms of providing a driver for improved performance and provision of services. There is therefore a need for a more concerted and consistent focus on the relationship between the cost of data preparation and its use in terms of either informing the improvement agenda or providing assurances over use of resources by those requesting the returns.

**What is the focus of the various reports?**

4.6 The selection of reports identified below further underlines the variety of reporting requirements in recent periods:

<b>Document</b>	<b>Forward looking?</b>	<b>Backward looking?</b>
Annual budgets, including schools budgets	✓	
Council tax leaflet	✓	
BVPP/ Corporate Plan	✓	✓
Forward plan of Key Decisions	✓	
Efficiency reports	✓	✓
Financial statements		✓
National statistics returns		✓
Whole of Government Accounts		✓
Others:		
— Grants		✓
— Annual Governance Statement		✓

4.7 The introduction of group accounts and the increasing extent of partnership working have also led to a blurring of boundaries within which an individual authority operates. Allied to this the emergence of area based assessments for England will lead to an increasing need to explain more fully the context in which the authority operates.

4.8 The argument, therefore, is that, as a result of the diversity of reporting requirements, engagement with stakeholders in terms of reporting is likely to be patchy and not designed to meet their information needs. This problem is exacerbated by the fact that the stakeholders for local government reporting purposes are wider than those for private sector reporting and include councillors, citizens, employees, local communities, partners, funding providers and future generations. In addition these stakeholder groups tend to be more disparate in terms of levels of interest, understanding and existing knowledge than those faced by private companies and have little choice over their involvement with their local authorities.

**Who is being held accountable?**

4.9 Tracking accountability is becoming more complex, as partnerships and regional bodies become more common. Performance measures and strategic objectives based on social outcomes require collective efforts. The challenge is to report on these multi-faceted structures in a way that is intelligible and maintains accountability.

4.10 An overall lack of clarity over responsibility for the service delivery and financial performance of authorities is encapsulated in the wide array of signatory

requirements. For example, in England, the different parts of the statement of accounts are signed by the Leader of the Council, Head of Paid Service, Chief Finance Officer and Monitoring Officer in various combinations in various locations. Against this background it is hard to determine who is ultimately accountable for the performance of the authority. Without clear accountability it is hard to engage stakeholders, as even if they take the time to read and understand the document, they do not know who to hold to account for anything they discover which they disagree with or causes concern.

4.11 A cursory review of the mainly financial returns shows that in many cases it is the chief financial officer (the RFO) who is required to sign these documents –

<b>Document</b>	<b>Required signatory</b>
Annual budgets	Responsible Financial Officer
Council tax leaflet	Responsible Financial Officer
BVPP/ Corporate Plan	Chief Executive
Efficiency Statement	Leader and Chief Executive
Financial statements	Responsible Financial Officer
National statistics returns	Responsible Financial Officer
WGA	Responsible Financial Officer
Others	
— Grants	Responsible Financial Officer
— Annual Governance Statement	Leader and Chief Executive

4.12 Which begs some questions that point to the need for a more principled rationale for who signs each document:

- is the RFO the most appropriate person? What is he or she certifying –the data or the performance?
- how is the division of responsibilities between members and officers properly reflected?
- is the Leader of the Council being asked to sign in an attempt to capture 'buy-in from the top' when really data accuracy is being certificated?
- how are the increasing instances of delivery through a partner organisation reflected?

### **Way forward**

4.13 Despite the concerns outlined above, it should be remembered that local government reporting does have considerable strengths and can provide lessons for the wider public sector. Corporate management and core financial reporting remain generally sound. In addition, consultation and communication and the exploitation of new technologies remain generally core strengths. What local government now needs to

do is tell people about its achievements in a more comprehensive and coherent manner.

- 4.14 The aim should be to rationalise the existing raft of reports so that stakeholders are clear on where to go to find key information on the overall performance of a local authority whether through traditional or electronic means. Future developments in local government reporting should therefore be about building on what is already there, to tie in non financial information to the currently financially biased reporting. Any such developments should also tie in with an authority's broad communications strategy.

Q1: Do you agree that more can be done to enhance accountability and with it communication? If your answer is yes, please provide details of the changes you would like to see.

Q2: With whom do you think responsibility for signing off key reports should sit?



## REVIEW OF CURRENT BEST PRACTICE

Stakeholder reporting for local government should seek to rationalise the wide range of local government performance reports and address the unique environment in which it operates. Although not providing all the answers, the work that has been carried out to develop stakeholder reporting in the private sector provides a number of pointers. In addition a number of local authorities and other public sector bodies have already made significant advances in their stakeholder reporting and provide some examples of good practice to help inform the debate.

5 REVIEW OF CURRENT BEST PRACTICE

**PRIVATE SECTOR**

5.1 The following sections discuss some of the models that exist for private sector reporting and their relevance to the public sector and highlight some reporting award criteria and other research that are relevant to local government.

**Report Leadership Group**

5.2 The Report Leadership Group<sup>2</sup> reported on the tenets of good effective communication through corporate reporting. It concluded that for companies the Annual Report remains the key corporate reporting document but that it should be made more effective by responding to investors’ needs. In overall terms, the group concluded that, effective communication should be about providing the information required without swamping readers in detail. For local government the purposes of effective communication translate into three key areas:

- to help authorities to report in ways that are more relevant and informative to their audience;
- to encourage stakeholders to push for the information they want; and
- to provide sufficient comfort to allow a relaxation in the regulatory code.

**FASB/IASB Conceptual Framework**

5.3 The recent work by the FASB/IASB on the conceptual framework supports the view that financial reporting should be:

“based upon consistent principles. To be consistent principles must be rooted in fundamental concepts rather than being a collection of conventions. .... The fundamental concepts need to constitute a framework that is sound, comprehensive and internally consistent”.

5.4 The report sets out the qualitative characteristics, or principles, to be considered in reporting. These are set out in the table below along with comments on their relevance to local government reporting where appropriate (in italics):

Qualitative Characteristics of Reporting

Users and Preparers	<p>It is assumed that users of the information provided will have a reasonable knowledge of business and economic activities, and will exercise reasonable due diligence and due care.</p> <p><i>This is unlikely to be the case for all users of local government reports.</i></p>
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<sup>2</sup> Report Leadership is a multi-stakeholder group that aims to challenge established thinking on corporate reporting. The contributors to the initiative are the Chartered Institute of Management Accountants (CIMA), PricewaterhouseCoopers LLP, Radley Yeldar and Tomkins plc.

Relevance	Information will be relevant to decisions on investment, credit and resources allocation. Such data may be predictive and confirmatory and should be timely.  <i>Relevance may need to be broader for local government reporting.</i>
Faithful Representation	Defined as including whether the data is verifiable, neutral, unbiased and complete.
Comparability	Allowing for the identification of similarities and differences.
Understandability	Enabling the user to comprehend its meaning. Enhanced when information is classified, characterised and presented clearly and concisely.
Materiality	A constraint that suggests only information that could influence the resource allocation should be presented.  <i>Whilst the judgement may have to be made in relation to other factors for local government the concept remains sound.</i>
Benefits and costs	An assertion that the benefits of providing the information should justify the costs of producing it.

5.5 This represents the first phase of the project, and the boards will be considering the particular issues facing public entities at a later date. Much of the paper is uncontroversial, but, whether or not the provision of information on accountability and/or stewardship should be regarded as an explicit objective has provoked considerable debate.

### **Building Public Trust Awards**

5.6 The private sector categories of the Building Public Trust Awards<sup>3</sup> judge all entries against overarching principles of good quality reporting, arrived at as a result of surveying users. These are:

- better, not more, information
- linkages between the information provided and the stated strategy of the organisation
- quantified data that support the qualitative statements made
- metrics that, where relevant, illustrate performance against peers

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<sup>3</sup> Building Public Trust Awards 2007, the Building Public Trust Awards were set up by PwC to reward the best corporate reporting in the FTSE 350 and the public sector.

- where appropriate, a statement of future ambition.

5.7 These principles are also important to have at the forefront when developing a new code - the aim should not be to develop a code that includes everything anybody could possibly want to know about a local authority, but should be concentrated on the provision of good quality targeted information that seeks to inform stakeholders.

### **PwC Corporate Reporting Framework**

5.8 The PwC Corporate Reporting Framework is PwC’s codification of best practice and it develops and expands the principles of the Operating and Financial Review and provides an overall summary of the areas that it argues should be covered by narrative reporting (including the OFR) in a profit motivated entity, as the table below illustrates:

The Corporate Reporting Framework



5.9 Each of these areas has a parallel in the information needs of those dealing with local authorities:

- the market overview is the equivalent of a summary of the external influences that the council faces, whether as a result of new legislation, central government initiative or broad economic factors like interest rates
- strategy and structure translates into a description of how the authority’s longer term plans and the way it is set up will enable it to deliver against its aspirations. Key longer term targets, suitably quantified, will help
- managing for value will explain how the variety of resources at the Council’s disposal are to be employed to execute its strategy, including such key issues as the manner in which employees will be managed and enthused
- performance provides an opportunity to demonstrate how successfully the council has met its aims and delivered services

## **PUBLIC SECTOR**

- 5.10 A number of local authorities and other public sector bodies have already made significant advances in their stakeholder reporting and provide some examples of good practice to help inform the development of local government stakeholder reporting.

### **Building Public Trust Awards**

- 5.11 The public sector categories of the Building Public Trust Awards translate the characteristics set out in the PwC corporate reporting framework into a public sector context for short listed public sector organisations. For these organisations, published stakeholder information and website information will be assessed for sufficiency, quality, scope and robustness in the following key areas:

- service delivery environment - a clear explanation of the impact of changes and trends in the regulatory, political and macro environment, including social, economic and environmental factors, and the organisation's response to them
- strategy and structure - clear statements of goals and objectives along with information on how these objectives are supported by the organisation's structure, an understanding of stakeholders and their concerns and interests, governance and accountability arrangements and the framework for high level identification, monitoring and management of risks
- managing delivery - clarity of disclosure around the processes, controls and tools that management employ to ensure that the organisation's resources and competencies are directed towards the achievement of key goals and objectives
- performance - clear statements and explanations, supported by quantified data where appropriate, of the organisation's performance against its goals and objectives both financial and non-financial.

### **PRA (Public Reporting and Accountability) Awards**

- 5.12 Run by CIPFA and PwC, the awards<sup>4</sup> recognise effective accountability in the public services. They reward public bodies that use best practice in producing their annual reports, corporate plan, general documentation and websites. A review of the winners of the past two years shows a spectrum between annual reports/statements of accounts that put emphasis on simplifying and explaining the current financially based statements to those that take a wider theme.

- 5.13 Examples of good practice include:

- substantial information on purpose and a wide ranging performance review.<sup>5</sup>
- stating the organizations main purpose up front along with summaries of objectives and principal activities, achievements and performance, financial

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<sup>4</sup> The PRA awards are run by CIPFA and PwC to recognise and promote best practice in public reporting and accountability across the public services, including voluntary and private sector organisations whose main activities are the provision of public services

<sup>5</sup> Veterans Agency and Cambridgeshire and Peterborough Mental Health Partnership NHS Trust accounts for 2004/05

review, management policies, employees, future plans and structure governance and management.<sup>6</sup>

- simplifying and clarifying the accounting policies and financial control statements whilst adding helpful summary financial information.<sup>7</sup>
- being laid out in a way that it designed to retain the reader's interest and heavily interspersed with pictures and diagrammatic representations of issues heavily targeted at its users.<sup>8</sup>

5.14 The best practice examples set out above show some similarities between key themes in both the private and public sector, indeed those most progressive organizations are already seeking to exploit the best from both sectors.

Q3A: Do you agree that a key aim of best practice is to provide citizens with consistent overarching information about the working of their local council?

Q3B: Do you think current reporting achieves this sufficiently or are there deficiencies which should be addressed? If so, what are these deficiencies, and how should they be addressed?

Q4: Do you agree the best practice examples suggest that current reporting overlooks significant aspects of the Council's operation? If your answer is yes, which are these and why?

Q5: Would a smaller number of more meaningful reports be a better approach? If your answer is yes, please suggest what these might be.

Q6: Are there other examples of best practice that should be considered? If your answer is yes, please provide details.

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<sup>6</sup> The RNID Annual Report and Financial Statements

<sup>7</sup> Wolverhampton City Council and Wychavon District Council in their statement of accounts for 2005/06, other 2005/2006 winners include the Royal National Institute for the Deaf (RNID) and the British Library.

<sup>8</sup> British Library's narrative element of its annual report and accounts

## PROPOSAL FOR A NEW STAKEHOLDER REPORTING FRAMEWORK FOR LOCAL GOVERNMENT

This section proposes a new framework for local government reporting to help each authority develop its own communication and reporting strategy, as well as to provide a focus for rationalisation and development of future central reporting requirements. It considers what the most appropriate approach and focus for this framework would be. It is hoped that both local and central government and other stakeholders will embrace the opportunity to rethink local government stakeholder reporting requirements and methods and engage actively in the debate on the form and substance of the proposed new reporting framework.

## 6 PROPOSAL FOR A NEW STAKEHOLDER REPORTING FRAMEWORK

- 6.1 The main reason for proposing a framework for stakeholder reporting is that the way forward cannot be to prescribe more and more information that must be provided. Instead, what is needed is a broad framework that focuses on principle and leaves it to each local authority to use its own judgement to determine how that should be applied in practice in developing its own communication and reporting strategy.
- 6.2 The framework should also provide a focus for rationalisation and development of future central reporting requirements. The aim would therefore be that the framework would offer best practice advice and help local authorities to determine their own reporting needs. In doing so it would aim to rebalance the current focus away from regulators and central government towards local communities as citizens, service users and taxpayers.

### **The Prudential Code as a Model**

- 6.3 The introduction of the Prudential Code succeeded in removing a mass of detailed regulation by replacing it with a principle driven regime requiring local decisions on its application in local circumstances. As a result, the Prudential Code is producing considerable improvements in capital programming in local government and is allowing for increased capital investment and partnership working.
- 6.4 What lessons does the Prudential Code give us for a new framework on local government reporting? In its form, a number of points are apparent:
- The code rests on some **simple principles**. The indicators are clustered around straightforward and yet comprehensive headings that adequately cover the concerns of all those interested. Furthermore the potentially difficult issues of definitions have been clearly dealt with, avoiding the temptation to seek loopholes that bedevilled statutory regulation;
  - The code results in **key decisions being taken locally**. Since the financial results of those decisions will be most felt by each council's local community, it feels intuitively reasonable.
  - There is a clear logic as it rests on an **explicit framework** that helps decision makers focus on the main issues and the implications of their decisions
  - At a practical level the Code is **not over onerous or costly** to administer: and
  - The Code is **linked directly into the stewardship framework and the statement of accounts**.
- 6.5 A broad principles based framework, allowing for the application of professional judgement to local circumstances whilst maintaining the confidence of regulators, is therefore not a new concept in local government. A comparable framework for local government stakeholder reporting could be based on broad principles with a focus on local decisions that reflect local circumstances whilst setting out minimum requirements to give confidence to regulators.
- 6.6 The financially based elements of the annual statement of accounts would continue to be covered by regulation and proper accounting practice. It could therefore be

argued that there is no need to make allowance for reserve powers in a framework on local government reporting. Instead, the framework could take the form of a protocol with government, best practice guidance, or a code of practice.

Q7: Would a framework for Local Government stakeholder reporting be helpful to local authorities in demonstrating that they are following best practice? Should this take the form of a protocol with government, a Code of Practice, Best Practice Guidance, or some other form? Please provide reasons

Q8: Should the proposed stakeholder reporting framework take a principles-based approach? Please provide reasons.

Q9: What do you feel is an acceptable balance between prescription to meet regulators needs and local flexibility? How can this be achieved?

### **Stakeholder Reporting Objectives**

6.7 CIPFA concludes that there are a number of possible reasons why stakeholder reporting is important for local authorities:

- to explain the ambitions of the authority for the local area and how it has committed to their delivery
- to explain the challenges, achievements and areas for further development facing the authority
- to indicate how well the authority has employed and safeguarded resources in the achievement of its objectives;
- to hold those charged with governance of the authority to account for the performance of the authority;
- to inform stakeholders of the activities of the authority and encourage them to push for the information they require; and
- to provide sufficient comfort to regulators that authorities are acting acceptedly.

Q10: Do you agree with these proposed objectives for local government stakeholder reporting? Please provide reasons and details of any that you believe are missing?

## Stakeholder Report Users and Purposes

- 6.8 Given the range of users, the purposes to which the information in stakeholder reports will be put will be many and varied. However, it is suggested that a simple reporting framework can be devised that is sufficiently flexible to meet these various needs. It should be able to deal with such demands as:

For communities	Commenting on the achievement of a 'sense of place', including sustainability, social inclusion and stewardship.
For service recipients	Commenting on the services provided and the implications and value for money of levels of financial and other resource inputs Reviewing the council's actual service delivery against its targets Reporting on the views of regulators.
For resource providers	Assessing how resources have been deployed in the achievement of its objectives. This reflects the concept of 'funders' (a term used by the UK Accounting Standards Board) but is drawn more widely to reflect the diverse nature of local authority funding.
For regulators	To provide comfort that the council is operating at an acceptable level.
For partners	To provide an overview of how partnerships fit within the overall organisation and are contributing to the achievement of objectives.
For government	To review implications for national objectives.

- 6.9 This list is obviously a high level and heavily simplified view of the myriad of users of local government reporting, and should be one of the key areas for debate and future development.

Q11: Do you agree that these are the key users of local government reports? Please provide reasons, and details of any that you believe are missing.

### Focus for Stakeholder Reporting

- 6.10 Local government reporting has two key focuses. The first is around forward planning including corporate and service planning and the budget and capital programme. The second is reporting, which presently is largely based on financial reporting, through the statement of accounts and performance data.
- 6.11 The proposal is for a stakeholder reporting framework in which two key reporting events would form the basis of a co-ordinated approach for local government reporting. It is hoped that this would considerably rationalise the current reporting

requirements placed upon local government as the development of minimum reporting requirements would give central government and other regulators significant confidence that their information needs will be met. The table below shows how the different elements could fit together.

*Elements of a Reporting Framework*

Framework: Objectives Users/Audience Purpose Scope and focus Principles			
Forward plan — Mandatory element — Discretionary part		Performance report — Mandatory element — Discretionary part	
Other Discretionary plans/ reports ----->			
December to February	March to May	June to August	September to November

6.12 There are a number of potential benefits from concentrating reporting on two key published reports:

- *for the authority* – concentration of effort should generate efficiencies in the preparation of public facing reports and a new framework should enhance the opportunities open to authorities to rethink the messages that they wish to convey.
- *for general users* – a forward plan and a single performance report should cover all key issues and areas of local concern and will make it easier to find the required information. This should improve the clarity of responsibility for performance.
- *for specific recipients* – their key needs should be identified and the information produced adapted.

6.13 Whilst effort would be concentrated on these two reports, local authorities could use the underlying information in a number of ways alongside the key report to support and build upon existing communication strategies. This could include use of key information in e-bulletins, community newsletters, provision of information via websites. What the two main reports should help to bring to these strategies is the benefit of a consistent message that is easily accessible to all involved.

6.14 We recognise that there is currently a significant debate underway about the future of electronic based reporting through mediums such as the internet. In particular there is a distinct argument that, in looking to the future, local government should be moving to an environment when reporting can provide a snapshot in time at whatever point the user requires it and in a format and level of detail geared to their needs. Whilst this report would not argue against such a vision for the future, it would suggest that the production twice a year of key published reports (whether

paper based or electronic) still has an important role in providing a comprehensive summary of all activity and a prompt to stakeholders to consider the information they require and how that can be sourced. In effect the published reports would be a gateway into the new forms of continuous reporting as these develop. It should also be remembered that, at least in the medium term, paper based reporting will continue to be required to reach those stakeholders who do not have access to or the skills to exploit the new technologies. In terms of reaching stakeholders who may otherwise be marginalised, the two reports would provide a focus for the provision of accessible information in other formats and languages.

Q12: Do you agree with the principle of a single forward plan and a single performance report encompassing a number of the current reporting requirements? If your answer is yes, what should they contain and what should they be called?

Q13: Can the two proposed reports meet the needs of all users or should they act as a gateway for information so that those with specific interests can access the detail they require? Please provide reasons

Q14: Would the production of consolidated forward plan and performance reports add to the pressure on staff or do you agree that some saving in resources can be achieved?

### **Approach to framework development**

- 6.15 Current forward planning reports, although varied and disparate in nature, generally have a wider remit and are more reflective of locality than current performance reports. In addition budgets currently do not directly align with financial information contained within the statements of accounts, while the links between budgeting and tax setting have significant legal implications. It is therefore proposed that the initial framework should focus on the performance report linked to the timetable of the annual Statement of Accounts. This is a proposal made purely on the basis of simplicity and achievability and it is clear that the principles and characteristics could apply equally to the forward plan element.
- 6.16 Whilst the vision for a stakeholder reporting framework is clearly one that would encompass all reporting and be sufficiently flexible to cope with innovations such as local area agreements, area based assessments and regional bodies, to give just a few examples, it is suggested that initial development should be tightly focussed, so that the debate remains directed to the key principles. At present, with the exception of the Greater London Authority and other specific bodies, individual local authorities retain individual accountability for their parts in initiatives such as local area agreements and are the body corporate in terms of legal and financial issues. It is therefore proposed that the framework should initially focus on the individual local authority, although it is clear that the principles developed can apply equally to other bodies and forms of public service delivery once their legal status is clear.
- 6.17 If developed in this way, the proposed framework may not cover all areas that authorities would wish to report on publicly. In these circumstances authorities would remain at liberty to develop their own reporting methods. Whilst these would be expected to be in keeping with the principles in the code, much of the detail could be

tailored to the particular circumstances and priorities of the Council involved, as indeed can the methods of communication.

Q15: Do you agree that a stakeholder reporting framework should focus initially on the performance report only?

Q16: How should overlapping accountabilities such as LSPs and MAAs be dealt with?



## PERFORMANCE REPORT-FRAMEWORK APPROACH

A reporting framework should give Local Authorities the tools with which to demonstrate that they are achieving all their objectives in a way that best reflects local circumstances. It would therefore be crucial that the stakeholder reporting framework provided the right guidance on the proposed performance reports in terms of their scope and the principles that should be used for their preparation.

## 7 PERFORMANCE REPORT-FRAMEWORK APPROACH

7.1 In Section 6 we proposed that a framework for stakeholder reporting should set out:

- the fundamental objectives of stakeholder reporting – why?
- the nature of the users - who to?
- the purposes to which the reports will be put – for what reason?
- the scope of reporting – on what?
- the principles of reporting – how?

7.2 Section 6 covered the first three of these areas. This Section covers the last two focusing on the proposed Performance Report. However, in developing a new framework for local government it would also be necessary to give thought to two overarching concepts of accountability and a sense of place, that reflect the unique nature of local government. The section also covers these areas

7.3 The thoughts set out below are not intended to be exhaustive or final, but, a starting point to aid debate. It is hoped that a number of these will be expanded and refined as the project progresses.

### **Overall approach**

7.4 The performance report would be the most significant public report about how an authority is doing, measured against its obligations and strategic goals. Whilst the report's timing would align with the publication of the Council's financial statements, it should be noted that the proposed framework would in no way supersede the requirements on the Code of Practice on Local Authority Accounting in terms of financial reporting. Instead it would deal with how those statements fit into the wider reporting framework.

7.5 On an initial view, it is proposed that the performance report should include:

- a narrative overview, including a report of achievement against key corporate and local objectives and ambitions for the locality.
- the financial statements for the past year, the Code of Practice on Local Authority Accounting requirements or a summary statement of accounts.
- a summary of key performance indicators
- a value for money description.

This would therefore combine elements of both financial and narrative reporting, extending and illustrating the basic messages of the current financially biased approach.

7.6 By building on the current financial report it is hoped that a number of the current statutory reporting requirements can be replaced. Where a clear need can be established, some residual reports may remain. The number of residual reports

should be limited, may not necessarily be published and should only occur in the following circumstances:

- where it can be justified that the benefits outweigh the costs
- where they deal with more specific matters than it is reasonable to expect the monitoring report to cover
- where more frequent reporting is seen as essential.

7.7 A parallel first principles review of the local government statement of accounts aims to result in improved understanding and reduced complexity. However, it is unlikely to lead to financial statements that are simple enough to be understood by all stakeholders. There may therefore be an argument for basing the performance report around a summary statement of accounts with key financial figures directly mapped to the full audited accounts.

Q17: Do you think the performance report should include the full audited statement of accounts or a summary statement? If you think a summary statement should be used which are the key figures that should be taken directly from the full audited accounts?

### **Scope**

7.8 The Audit Commission, in its intentions for 2008/09 assessments, makes it clear that external financial reports should be timely, reliable and meet the needs of internal users, stakeholders and local people. They should give an 'objective, balanced and understandable assessment of the organisation's performance in the year'. To do this they must enable understanding of the authority's activities, achievements, and performance.

7.9 These elements represent good practice pointers for financial reporting. However they are equally important for more rounded stakeholder reporting. This is an opportunity for the council to explain its strategic intentions, its plans and performance in sustaining the local quality of life and making a difference to prospects for the local area, be they social, economic or environmental.

7.10 Performance reports should reflect the issues and challenges that concern local people and the council that represents their long term interests. Often these will be service issues, like whether there are enough places in good quality schools or worries about affordable housing, but they may include cross cutting issues like health inequalities. The council may want to explain how its governance arrangements, such as scrutiny, help to address these concerns. Its reporting would also need to be balanced and objective so as to instil trust and confidence in readers.

7.11 The proposed framework should therefore establish the topics that should be considered for reporting by each Council. A minimum set of reports to be prepared could be defined. Beyond that the reporting framework could set out the nature of the areas that might ideally be covered. The table below is intended to act as a starting point for the discussion as to what should be covered by the framework. A number of the areas that are marked as discretionary have been categorised in this way because for some authorities they would be material whilst for others they

would be unimportant. In line with the principle of relevance, it is not envisaged that a new framework should require areas to be reported on by all authorities where they are unlikely to be universally applicable.

<b>Key Area/Item</b>	<b>Essential</b>	<b>Discretionary</b>
<b>Service Delivery Environment</b>		
Regulatory and political framework	✓	
Changes in statutory functions		✓
Particular social, economic or environmental factors		✓
<b>Strategy and Structure</b>		
Organisation's objectives and structure	✓	
Governance and accountability arrangements	✓	
Community engagement, inclusion, sustainability	✓	
Involvement in overarching partnerships		✓
Changes in strategies and structures		✓
Key stakeholder concerns and interests		✓
<b>Managing Value</b>		
Financial and other resources used to achieve the organisation's objectives	✓	
Effective use of resources, including VFM and Probity	✓	
Partnerships and relationships with other entities		✓
Asset management		✓
<b>Performance</b>		
Progress towards achieving objectives	✓	
Service and other performance data	✓	
Customer satisfaction		✓
Charter Marks and recognition of best practice		✓
Response to/ Resolution to Local Issues		✓

- 7.12 Scope would be another key area for discussion around the development of the framework and critical to its future success. Too much prescription would stifle authorities' ability to make reporting relevant to their circumstances, too little would remove the opportunity for rationalisation of current reporting.
- 7.13 In considering the scope of the performance report, consideration would need to be given to timing issues brought about by the inclusion of specific information. The

inclusion of audited financial and performance data, for example, would have a considerable impact on the publication date of the report.

Q18: Do you agree with the topics included in the scope above? Please provide reasons where you disagree or details of any that you believe are missing?

Q19: Do the headings as set out above provide sufficient detail in terms of topics or should more detail be given? If you require more detail should it be in the framework itself or in supplementary guidance on its application? Please provide reasons.

## Principles

- 7.14 The main principles that must be displayed by the data in financial accounts are those of relevance, 'faithful representation', comparability and understandability. Relevance raises two questions; who to? and for what purposes? The purposes to which the information in a stakeholder report would be put are many and varied as illustrated earlier in this report. Authorities would need to take in to account the broad range of potential users of their reports and the wide variety of the reasons for which they need information. Where practical, such reports would need to be produced in such a manner that it was possible to identify sufficient detail to substantiate the headline messages, regardless of whether they were of a financial nature or dealt with matters that were readily quantifiable.
- 7.15 Faithful representation captures the need for data to be verifiable, unbiased and complete. None of this is controversial, though the extent to which the various reports should be audited is a valid question. Any information set out in a stakeholder report would need to be capable of being supported by evidence. The overall picture that is presented should provide the user with a balanced view of the authority's performance or the state of affairs, including an appropriate assessment of the relevant background.
- 7.16 Comparability recognises that much information is particularly helpful where it either:
- places the authority into context, for example by contrasting its performance with that of similar councils
  - allows changes in performance over time to be assessed, in the sense of trend analysis and the like.
- 7.17 To facilitate such comparisons, it would be necessary for there to be general agreement as to how the data should be compiled, which, ideally, does not change from one year to the next. That is relatively straightforward where nationally prescribed reports are involved, but may become increasingly difficult as more freedoms are granted. To avoid problems as far as possible, where available, authorities would need to follow agreed definitions, such as those found in Accounting Codes of Practice.
- 7.18 The concept of understandability recognises that to provide an effective channel of communication, the user must be able to appreciate the message that the authority intends to convey. While this may be thought self-evident, in framing stakeholder

reports authorities would need to consider how readily their meaning would be appreciated by potential users. This would be especially relevant where they contained technical content or are couched in terms not in everyday use.

- 7.19 Materiality would be one of the key issues to making reporting informative and effective in reaching its target audience. There would be a need to ensure that it didn't become over burdensome both to the reader and to the preparer . Authorities would therefore need to use judgement to ensure that any information set out in a report was material to the understanding of the authority's position and the context in which it operates.

Q20: Do you agree that the principles of relevance, faithful representation, comparability, understandability and materiality are relevant to stakeholder reports? Please provide reasons where you disagree or details of any that you feel are missing?

### **Accountability**

- 7.20 It is often said that accountability is of more importance in the public sector than elsewhere. The public has no option but to contribute towards that part of the cost covered by local taxation, through the council tax and by other means. In these circumstances, it is right that those who spend such resources should display a high level of responsibility, that they should account for their actions and that they should be held accountable. As a minimum that entails maintaining a high standard of probity in their dealings, and it has implications for the levels of service, equity and value for money that they achieve

### **A sense of place**

- 7.21 A new framework has to consider on what it is reporting. The immediate conclusion might be that it is the activity of the Council that then forms the natural focus. It is self evident that this is at least partly the case. However, this paper has already acknowledged the changing role of local authorities, away from direct provision and towards strategic direction and partnering. In such circumstances, should the scope reflect the outcomes felt in the area of the Council?
- 7.22 Such a conclusion would sit comfortably with a broad set of current policy. Local area agreements, for example, focus on results felt in the locality and not on inputs. The thrust of the recent White Paper is on partnerships. All councils act as strategic leaders in their communities.
- 7.23 How should the framework reflect this tension, in a way that reflects the changing role in the community without damaging accountability? The principles in the framework must be sufficiently broadly based to accommodate this broader role. And each Council will need to consider its local response to its particular initiatives.

Q21: What are the practical implications of the proposals? Please give specific examples where possible.

## NEXT STEPS

This document is intended to start a debate about future stakeholder reporting in Local government and provides a skeleton proposal for a new reporting framework. It does not claim to provide all the answers, and matters such as partnership reporting and Local Area Agreements are highlighted as issues rather than dealt with. It would not be intended that the reporting framework itself would provide all the answers but provide an approach to help local government respond to reporting in an ever changing climate, as well as a focus for future development.

Detailed discussions are taking place with stakeholder organisations representing both local and central government as to the issues raised in this paper and the potential solutions being put forward. It is hoped these discussions will also cover the legislative framework and link in to the 'Reducing the Burden' taskforce. In addition, in a parallel consultation, CIPFA is considering the scope for simplifying local authority financial statements, linked to the introduction of IFRS.

We have published this discussion document on the broader reporting framework at the same time, and made it widely available via the web, in the expectation that local government practitioners and stakeholders will take up the challenge and respond with comments and views as well as suggestions for how the model might be improved and taken forward. As well as responding to specific questions contained within the document, more general views and suggestions are also welcomed.

Responses to this consultation will be regarded as on the public record unless confidentiality is specifically requested.

Responses are required by 31 July 2008 and may be sent to:

Alison Scott  
Policy and Technical Directorate  
CIPFA  
3 Robert Street  
London  
WC2N 6RL  
Fax: 020 7543 5695  
E-mail: [alison.scott@cipfa.org](mailto:alison.scott@cipfa.org)

(For ease of handling, e-mailed responses, in Word document form, are preferred.)



## SUMMARY OF QUESTIONS

<b>Current Stakeholder Reporting Requirements</b>	
Q01:	Do you agree that more can be done to enhance accountability and with it communication? If your answer is yes, please provide details of the changes you would like to see.
Q02:	With whom do you think responsibility for signing off key reports should sit?
<b>Review of Current Best Practice</b>	
Q03A:	Do you agree that a key aim of best practice is to provide citizens with consistent overarching information about the working of their local council?
Q03B:	Do you think current reporting achieves this sufficiently or are there deficiencies which should be addressed? If so, what are these deficiencies, and how should they be addressed?
Q04:	Do you agree the best practice examples suggest that current reporting overlooks significant aspects of the Council's operation? If your answer is yes, which are these and why?
Q05:	Would a smaller number of more meaningful reports be a better approach? If your answer is yes, please suggest what these might be.
Q06:	Are there other examples of best practice that should be considered? If your answer is yes, please provide details.
<b>Proposal for a new Stakeholder Reporting Framework for Local Government</b>	
Q07:	Would a framework for Local Government stakeholder reporting be helpful to local authorities in demonstrating that they are following best practice? Should this take the form of a protocol with government, a Code of Practice, Best Practice Guidance, or some other form? Please provide reasons
Q08:	Should the proposed stakeholder reporting framework take a principles-based approach? Please provide reasons.
Q09:	What do you feel is an acceptable balance between prescription to meet regulators needs and local flexibility? How can this be achieved?
Q10:	Do you agree with these proposed objectives for local government stakeholder reporting? Please provide reasons and details of any that you believe are missing?
Q11:	Do you agree that these are the key users of local government reports? Please provide reasons, and details of any that you believe are missing.
Q12:	Do you agree with the principle of a single forward plan and a single performance report encompassing a number of the current reporting requirements? If your answer is yes, what should they contain and what should they be called?

Q13:	Can the two proposed reports meet the needs of all users or should they act as a gateway for information so that those with specific interests can access the detail they require? Please provide reasons
Q14:	Would the production of consolidated forward plan and performance reports add to the pressure on staff or do you agree that some saving in resources can be achieved?
Q15:	Do you agree that a stakeholder reporting framework should focus initially on the performance report only?
Q16:	How should overlapping accountabilities such as LSPs and MAAs be dealt with?
<b>Performance Report - Framework Approach</b>	
Q17:	Do you think the performance report should include the full audited statement of accounts or a summary statement? If you think a summary statement should be used which are the key figures that should be taken directly from the full audited accounts?
Q18:	Do you agree with the topics included in the scope above? Please provide reasons where you disagree or details of any that you believe are missing?
Q19:	Do the headings as set out above provide sufficient detail in terms of topics or should more detail be given? If you require more detail should it be in the framework itself or in supplementary guidance on its application? Please provide reasons.
Q20:	Do you agree that the principles of relevance, faithful representation, comparability, understandability and materiality are relevant to stakeholder reports? Please provide reasons where you disagree or details of any that you feel are missing?
Q21:	What are the practical implications of the proposals? Please give specific examples where possible.