

Financial statements

3.1 NARRATIVE REPORT

3.1.1 Introduction

- 3.1.1 A local authority in England, Northern Ireland and Wales shall publish a narrative report with the financial statements (for the purposes of this section of the Code the 'narrative report' is deemed to have the same meaning as 'narrative statement' in the Accounts and Audit Regulations 2015 for local authorities in England).
- 3.1.2 The purpose of the narrative report is to provide information on the authority, its main objectives and strategies and the principal risks that it faces. The narrative report should provide a commentary on how the authority (including the group accounts) has used its resources to achieve its desired outcomes in line with its objectives and strategies.
- 3.1.3 The narrative report must provide a fair, balanced and understandable analysis of the authority's performance. The narrative report should highlight and explain the linkages between information presented in the narrative report and the information within the financial statements and information presented must be consistent with the information within the financial statements.
- 3.1.4 The structure and presentation of the narrative report should be determined by the authority in order to best meet the needs of the users and reflect the individual characteristics of the authority and the reporting period under review. The narrative report shall include an overview of performance (reported on a voluntary basis for 2024/25).

Overview of performance and summary financial information

Overview of performance

- 3.1.5 The purpose of the overview of performance is to give the user a short (no more than ten pages) summary of elements of the narrative report that provides them with sufficient information to understand the organisation, its purpose, the outcomes it is aiming to achieve, its objectives, its performance against delivering those outcomes and/or objectives and both the impact of and management of key risks. The performance overview should provide sufficient information for the lay user to have no need to look further into the rest of the annual report and accounts, unless they were interested in further detail or had specific accountability or decision-making needs.
- 3.1.6 The overview of performance should be a summary of performance (reported in the narrative report) against a local authority's strategic and service objectives and outcomes and the risks it faces and should include a summary financial review. This may be combined with the summary financial information in paragraph 3.1.1.8 below.
- 3.1.7 A local authority has some flexibility to tell its own story of its performance in the manner that best suits the needs of the user. As a minimum, the performance overview shall include:
- A short summary explaining the purpose of the overview section (see paragraph 3.1.1.5).
 - A statement from the chief executive providing their perspective on the performance of the organisation over the period.
 - A statement of the purpose and activities of the organisation, including a brief description of the operational model and environment (this should be a summary of narrative report contents prescribed by paragraphs 3.1.1.11 and 3.1.1.13 below).
 - A summary of the strategic objectives the authority has been working towards, and details of relevant enabling work taking place within the authority to achieve said objectives.
 - A summary of the performance (ie a summary of the narrative report contents outlined in paragraph 3.1.1.17 below), providing a synopsis of the performance and outlining whether the authority is progressing towards achieving its priority outcomes, strategic objectives and any other organisational goals. This section should include appropriate commentary on the financial resilience of the authority. It should provide key financial or

non-financial indicators and other objectives. These indicators should be drawn for those indicators which are publicly available and clearly understood and detail whether performance has met expectations or explain why performance is below expectations.

- f) A summary of the principal risks faced as reported under the specifications of paragraph 3.1.1.14 below and how these have affected the delivery of priority outcomes and/or strategic objectives, how they have changed, how they have been mitigated and any emerging risks that may affect future performance. The descriptions of the principal risks should be sufficiently specific so that the reader can understand why they are important.

Summary financial information

3.1.18 As a minimum summary financial information shall include:

- a) A summary of outturn per service in comparison to an authority's budget as reported in the council tax leaflet and reconciled to the amounts charged to a revenue account in accordance with statutory provisions ie the reported surplus or deficit per paragraph 3.4.2.105 I c). This shall be accompanied by the explanations of major variances from the budget reported in the council tax leaflet.
- b) Where applicable, an analysis of outturn against spend shall be provided for the Housing Revenue Account. This shall be accompanied by the explanations of major variances in the budget reported to housing rent payers.
- c) A summary of a local authority's financial position based on its reported Balance Sheet per paragraph 3.4.2.62 and including as a minimum:
 - i) What an authority is owed and owns (assets both current and non-current)
 - ii) What an authority owes (liabilities both current and non-current)
 - iii) Net financial position of an authority (assets less liabilities)
 - iv) An authority's usable reserves (those reserves an authority can use to support services)
 - v) An authority's unusable reserves (those reserves which are held for specific purposes such as the capital adjustment account or the revaluation reserves and those which are created to accommodate statutory purposes).
- d) An analysis of an authority's usable reserves.
- e) An authority's capital expenditure for the current and preceding year and forecast for the following three years. A short explanation of the authority's capital programme including major capital projects. This should also include a commentary to demonstrate how the authority has performed against the budget.
- f) An outline of an authority's future funding commitments for its capital programme and other future liabilities such as major provisions or pension liabilities.
- g) The authority's underlying need to borrow to finance capital expenditure ie its reported capital financing requirement in accordance with paragraph 4.1.4.3 5). Borrowing as a proportion of a council's total income for the current and preceding year and forecast for the following three years and an explanation of what the trends indicate in terms of capital financing.
- h) A summary of any significant commercial activities and their risks.

3.1.19 The narrative report should focus on those elements that are material to an understanding of the financial position and performance of the authority. In developing the narrative report consideration should be given to the following elements:

- a) organisational overview and external environment
- b) governance
- c) operational model
- d) risks and opportunities
- e) strategy and resource allocation
- f) performance
- g) outlook, and

h) basis of preparation.

3.1.1.10 It is recommended that the structure and content of the narrative report is reviewed annually to ensure that it continues to meet its objectives in an efficient and effective manner.

Organisational overview and external environment

3.1.1.11 The narrative report should contain sufficient information to understand the organisation of the authority and its services, its purpose and its key objectives. In order to put the authority's objectives and purpose into context the narrative report should include information on the external environment in which it operates, particularly where there have been changes that impact upon the year under review.

Governance

3.1.1.12 If there have been significant changes in, or issues around, governance arrangements during the year these should be highlighted in the narrative report. To avoid duplication this may be achieved by cross-reference to the annual governance statement that accompanies the financial statements.

Operational model

3.1.1.13 The narrative report should include information on inputs, outputs, operational activities of the authority's key services and outcomes and how the authority allocated and consumed resources during the year in order to achieve its objectives.

Risks and opportunities

3.1.1.14 The narrative report should include any significant future opportunities to develop services along with key risks and uncertainties in relation to future service provision (including financial risks) and risk mitigation measures.

3.1.1.15 Further details of the future outlook or risks and uncertainties should be included where there is a potential material impact on the authority's operational model or performance (including the performance of its services).

Strategy and resource allocation

3.1.1.16 The narrative report should provide a description of the agreed medium- and long-term strategies of the authority, including its medium-term financial strategy and plans to address any future resource shortfalls.

Performance

3.1.1.17 The narrative report should provide an analysis of:

- a) the performance of the authority in that financial year and its position at the end of the year to complement the financial statements, where relevant, providing additional explanations, analysed in the context of the authority's strategic/corporate reports for that year; any segmental analysis should be consistent with the authority's segmental analysis provided in accordance with this section and Section 3.4 of this Code, and
- b) any key financial and non-financial performance indicators as relevant to the performance of the authority that the local authority judges as central in assessing progress against its strategic objectives, or monitoring its risks or otherwise used to measure performance in the year.

3.1.1.18 Performance indicators used should, where possible, represent generally accepted measures of performance for local authorities whether on a corporate, financial or service basis and comparatives should be included. Any significant changes from year to year should be explained and, if necessary, appropriate description of the performance indicators should be provided.

3.1.1.19 It is recommended that a local authority cross-refer to the outturn provided in the expenditure and funding analysis required by paragraph 3.4.2.105 and include additional narrative context for the performance presented in the analysis. A local authority may wish to include appropriate budgetary information to provide additional context to the expenditure and funding analysis.

Outlook

- 3.1.1.20 The narrative report should contain sufficient information to allow the user to assess the future sustainability of the organisation and its impact on service provision including:
- a) cash flows during the year and the factors that may affect future cash flows
 - b) information on an authority's key commitments, commentary on significant matters covered in the budget report and any significant assets or liabilities earned or incurred, and
 - c) details of known future budget pressures or changes in resources and the authority's plans for dealing with any shortfalls.

Basis of preparation and presentation

- 3.1.1.21 The narrative report should allow the users to understand how materiality and the group accounts boundary decisions are made in relation to what is included in the financial statements of the authority and the impact on the financial statements.

Management commentary – Scottish local authorities

- 3.1.1.22 Statutory guidance on the management commentary in Scottish Government Circular 5/2015 'sets aside' the Code requirement for an explanatory foreword. This means the requirements of this section of the Code. [Scottish local authorities may wish to add an overview of performance and summary financial information where this assists with the communication of key messages of performance including financial performance.](#)

3.1.2 Accounting requirements

- 3.1.2.9 Information provided in the narrative report shall reflect the accounting requirements of the Code.

3.1.3 Statutory reporting and disclosure requirements

- 3.1.3.9 There are no statutory disclosure requirements in relation to the narrative report.

Narrative report – English local authorities

- 3.1.3.10 Local authorities in England are required by the Accounts and Audit Regulations 2015 to publish a narrative statement with the statement of accounts. Such a narrative statement shall be provided in accordance with this section of the Code.
- 3.1.3.11 As a part of the requirement to provide a narrative statement, Regulation 8(2) of the Accounts and Audit Regulations 2015 stipulates that a local authority must provide information on its "financial performance and economy, efficiency and effectiveness in its use of resources over the financial year". CIPFA/LASAAC considers that the Code meets the requirements of Regulation 8(2).

Narrative report – Welsh and Northern Irish local authorities

- 3.1.3.12 There are no statutory reporting requirements in relation to the narrative report for Welsh and Northern Irish local authorities.

Management commentary – Scottish local authorities

- 3.1.3.13 The statutory reporting requirements for a management commentary are included in the Local Authority Accounts (Scotland) Regulations 2014. Scottish Government Finance Circular 5/2015 provides statutory guidance on the management commentary.

3.1.4 Changes since the 2023/24 Code

- 3.141 [The 2024/25 Code includes new reporting requirements for the overview of performance and summary financial information which may be reported on a voluntary basis for 2024/25 financial year.](#)