

Local Government Finance Circular 5/2015 – summary of Companies Act 2006 requirements and their application to the public sector

Strategic Report Companies Act 2006 Section 414C – Contents of strategic report		Management Commentary – local authority statutory guidance – LG Finance Circular 5/2015	FReM 2014-15
		The management commentary shall disclose the matters required to be disclosed in a strategic report under section 414C of the Companies Act 2006, as interpreted below.	The annual report shall contain a strategic report, which shall disclose the matters required to be disclosed in the strategic report under section 414C of the Companies Act 2006, as interpreted below.
Section 414C (1)	The purpose of the strategic report is to inform members of the company and help them assess how the directors have performed their duty under section 172 (duty to promote the success of the company).	"members" shall be interpreted to be all users of the accounts. "directors" shall be interpreted to be the local authority.	"members" shall be interpreted to be all users of the accounts
Section 414C (2)	Strategic report must contain – (a) a fair review of the company's business (b) a description of the principal risks and uncertainties facing the company.	Applies without modification	
Section 414C (3)	The review required is a balanced and comprehensive analysis of: (a) the development and performance of the company's business during the financial year, and (b) the position of the company's business at the end of the year, consistent with the size and complexity of the business.	Applies without modification	In relation to s414C(2) and s414C(3) the strategic report should be self-standing and comprehensive in its scope. However, some information might be given in other documents in the cycle of accountability to Parliament and the public. In such cases, the strategic report should provide summarised information with adequate cross-reference to other documents.
Section 414C (4)	The review must, to the extent necessary for an understanding of the development, performance or position of the company's business, include: (a) analysis using financial key performance indicators, and (b) where appropriate, analysis using other key performance indicators, including information relating to environmental matters and employee matters.	Applies with modification. The requirement for the review to include non-financial performance indicators is to be applied but is varied. A local authority may include such performance indicators as management consider relevant. These do not necessarily need to include information relating to environmental matters or employee matters.	Departments should disclose performance against their key performance indicators. Other reporting entities should report performance against those key performance indicators agreed with the Minister and normally promulgated by means of a Parliamentary question. In relation to the requirements of s414C(4) in disclosing information relating to the achievement of financial key performance indicators based on a return on capital employed, reporting entities should use the definitions of "return" and "capital employed" as agreed in their Treasury Minute or other document rather than those given in the Reporting Statement
Section 414C (5)	"Key performance indicators" means factors by reference to which the development, performance or position of the company's business can be measured effectively.	Applies without modification	
Section 414C (6)	Where a company qualifies as medium-sized the review does not need to include non-financial performance indicators.	A local authority may not apply this exemption	

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Section 414C (7)	For quoted companies, the strategic report must, to the extent necessary for an understanding of the development, performance or position of the company's business, include - (a) the main trends and factors likely to affect the future development, performance and position of the company's business, and (b) information about – (i) environmental matters (ii) the company's employees, and (iii) social, community and human rights issues, including information about any policies of the company in relation to those matters and the effectiveness of those policies.	Paragraph 7(a) applies without modification to a local authority Paragraph 7(b) does not apply to a local authority	In relation to departments applying s.414C(7)(a), the strategic report should disclose, where applicable, the financing implications of significant changes in the department's objectives and activities, its investment strategy and its long-term liabilities (including significant provisions and PFI and other leasing contracts) in the light of the department's spending review settlement; and Sections 414C (7) (b) (i) and (iii) require information on environmental matters and social, community and human rights issues respectively. Environmental issues are covered in the sustainability report within the strategic report. Social, community and human rights issues should be disclosed to the extent necessary for the understanding of the business.
Section 414C (8)	In the case of a quoted company the strategic report must include – (a) a description of the company's strategy. (b) a description of the company's business model, (c) a breakdown showing at the end of the financial year – (i) the number of persons of each sex who were directors of the company; (ii) the number of persons of each sex who were senior managers of the company, and (iii) the number of persons of each sex who were employees of the company	Paragraph 8 (a) applies without modification Paragraph 8 (b) applies without modification Paragraph 8 (c) does not apply to a local authority	
Section 414C (9)	"Senior manager" is defined	Does not apply as section 414C (8) (c) does not apply	In relation to section 414C (8)-(10) senior manager is taken to be any member of staff at SCS level or equivalent.
Section 414C (10)	For a group strategic report the reference to company in 414C (8) is to the parent company and the disclosures in 414C (8) (c) relate to the group	Does not apply as section 414C (8) (c) does not apply	
Section 414C (11)	The strategic report may contain those matters required to be disclosed in the directors' report if directors consider they are of strategic importance.	Applies but only to the extent that those matters set out for inclusion in a directors' report are relevant to a local authority and they are considered to be of strategic importance.	
Section 414C (12)	The report must, where appropriate, include references to, and additional explanations of, amounts included in the company's annual accounts.	Applies without modification	
Section 414C (13)	For a group strategic report the references to company in this section of the legislation relate to the group.	Applies without modification	

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Section 414C (14)	The legislation does not require the disclosure of information about impending developments or matters in the course of negotiation if the disclosure would, in the opinion of the directors, be seriously prejudicial to the interests of the company.	Applies without modification	
			<p>In addition to the matters described in section 414C of the Companies Act 2006, reporting entities to which this Manual applies shall disclose the following information in the strategic report:</p> <p>a) (departments to which paragraph 5.1.4 refers) a comparison of outturn against Estimate, with detailed explanations of the causes of significant variances where applicable;</p> <p>b) (departments preparing accounts under the Government Resources and Accounts Act 2000 or the Government Resources and Accounts Act (Northern Ireland) 2001) a reconciliation of net resource expenditure between Estimates, budgets and accounts. The format to be applied is set out in the FReM;</p> <p>c) (departments only) a description of the reporting entities within the departmental accounting boundary;</p> <p>d) (departments only) the names of any public sector bodies outside the boundary for which the department had lead policy responsibility in the year, together with a description of their status (for example, trading fund or public corporation);</p> <p>e) (departments only) a description of the departmental reporting cycle, including an outline of the matters covered in the Estimates, and information about how readers can obtain this document;</p> <p>f) (departments only) commentary on the department's significant remote contingent liabilities (that is, those that are disclosed under Parliamentary reporting requirements and not under IAS 37) to enable the reader to understand their nature and what steps the department is taking to minimise the risk of their crystallising;</p> <p>g) (executive agencies that are not whole departments and ALBs only) a note that the accounts have been prepared under a direction issued by [relevant authority] under [reference to appropriate legislation];</p> <p>h) (executive agencies that are not whole departments and ALBs only) a brief history of the entity and its statutory (or equivalent)</p>

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			<p>background; and</p> <p>i) (primarily for ALBs) an explanation of the adoption of the going concern basis where this might be called into doubt, for example where there are significant net liabilities that will be financed from resources voted by Parliament (grant in-aid, for example) in the future.</p>
<p>Companies Act 2006 Directors' Report</p> <p>Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 Schedule 7 – matters to be dealt with in Directors' report SI 2008/ /410</p>	<p>Management Commentary – statutory guidance</p> <p>There is no requirement for a local authority to produce a Directors' report, either separately or as part of the management commentary.</p> <p>Section 414C(11) of the Companies Act permits those matters set out for inclusion in a directors' report to be included in the strategy report if they are considered to be of strategic importance.</p> <p>A local authority is not required to disclose those matters to be dealt with in a Directors report in the management commentary.</p> <p>A local authority is required to include in their management commentary any of those matters set out for inclusion in a directors report but only to the extent they are considered to be of strategic importance.</p>	<p>FReM 2014-15</p> <p>The annual report shall contain a directors' report, which shall disclose the matters required to be disclosed in the directors' report under section 416 of the Companies Act 2006 as interpreted below.</p> <p>The term 'directors' and the information required is interpreted as:</p> <p>a) (departments) the ministerial titles and names of all ministers who had responsibility for the department during the year;</p> <p>b) (departments) the name of the person occupying the position of the permanent head of the department;</p> <p>c) (reporting entities other than departments) the names of the chairman and chief executive; and</p> <p>d) (all reporting entities) the composition of the management board (including advisory and non-executive members) having authority or responsibility for directing or controlling the major activities of the entity during the year. This means those who influence the decisions of the entity as a whole rather than the decisions of individual directorates or sections with the reporting entity.</p>	
<p>Part 1: Matters of a General Nature</p> <ul style="list-style-type: none"> • Asset values (repealed) • Political donations and expenditure • Charitable donations (repealed) • Financial Instruments • Miscellaneous <ul style="list-style-type: none"> ○ Important events affecting the company which have occurred since the end of the financial year ○ An indication of likely future developments in the business of the company 	<p>Disclosure of any of these matters in the management commentary is only required to the extent they are considered to be of strategic importance.</p>		

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<ul style="list-style-type: none"> ○ Research and development ○ Branches of the company outside the UK 			
<p>Part 2: Disclosure required by Company acquiring its own shares etc.</p>	<p>Disclosure of any of these matters in the management commentary is only required to the extent they are considered to be of strategic importance.</p>		
<p>Part 3: Disclosure concerning employment etc. of disabled persons</p> <ul style="list-style-type: none"> • If more than 250 employees a statement describing the policy applied during the financial year - <ul style="list-style-type: none"> ○ For giving full and fair consideration to applications for employment by the company made by disabled persons ○ For continuing the employment of, and for arranging appropriate training for, employees of the company who have become disabled persons during the year ○ For the training, career development and promotion of disabled persons employed by the company 	<p>Disclosure of any of these matters in the management commentary is only required to the extent they are considered to be of strategic importance.</p>		
<p>Part 4: Employee Involvement</p> <ul style="list-style-type: none"> • If more than 250 employees a statement describing the action taken during the financial year to introduce, maintain or develop arrangements aimed at – <ul style="list-style-type: none"> ○ Providing employees systematically with information on matters of concern to them as employees ○ Consulting employees or their representatives on a regular basis so that the views of employees can be taken into account in making decisions which are likely to affect their interests ○ Encouraging the involvement of employees in the company's performance through an employees' share scheme or by some other means ○ Achieving a common awareness on the part of all employees of the financial and economic factors affecting the performance of the company 	<p>Disclosure of any of these matters in the management commentary is only required to the extent they are considered to be of strategic importance.</p>		
<p>Part 5: Policy and Practice on payment of creditors (repealed)</p>	<p>No disclosure - repealed</p>	<p>No disclosure - repealed</p>	
<p>Part 6: Disclosure required by certain publicly-traded companies</p>	<p>Disclosure of any of these matters in the management commentary is only required to the extent they are considered to be of strategic importance.</p>		
<p>Part 7: Disclosures concerning greenhouse gas emissions</p>	<p>Disclosure of any of these matters in the management commentary is only required to the extent they are considered to</p>	<p>The reporting of Greenhouse Gas Emissions under Schedule 7 of SI 2008 No 410 is not required. Entities falling within the scope of</p>	

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	<p>be of strategic importance.</p>	<p>reporting under the Greening Government commitments (i.e. departments, Non-Ministerial departments, agencies and ALBs) and which are not exempted by de minimis limit or other exemption under Greening Government (or other successor policy), shall produce a sustainability report to be included within the strategic report, reporting performance against sustainability targets for greenhouse gas emissions, waste minimisation and management and the use of finite resources and their related expenditure. To facilitate reporting, guidance on the reporting methodology, and an illustrative reporting model, can be found on the gov.uk website. Inclusion of a sustainability report will fulfil the reporting requirements regarding greenhouse emissions in Schedule 7 of SI 2008 No. 410.</p>
		<p>In addition to the matters described in sections 416 of the Companies Act 2006 and Schedule 7 of the Large and Medium-sized companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008 No 410), reporting entities to which this Manual applies shall disclose the following information:</p> <ul style="list-style-type: none"> a) an indication of how pension liabilities are treated in the accounts and a reference to the statements of the relevant pension scheme. A cross-reference to the accounting policy note in the accounts and the remuneration report will normally be sufficient; b) details of company directorships and other significant interests held by Board members which may conflict with their management responsibilities. Where a Register of Interests that is open to the public is maintained, disclosure may be limited to how access to the information in that Register may be obtained; c) information regarding the disclosure of the remuneration paid to the auditors for any non-audit work undertaken by the auditors as required by Regulations made under Section 494 of the Companies Act 2006; d) published sickness absence data; e) (for Public Sector Information Holders only) a statement that [name of entity] has complied with the cost allocation and charging requirements set out in HM Treasury guidance; and f) reporting of personal data related incidents.