



A guide to strategic reporting

A practical guide for large and medium-sized companies

Hawsons Chartered Accountants


www.hawsons.co.uk


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Sheffield: Pegasus House | 463a Glossop Road | Sheffield | S10 2QD

Doncaster: 5 Sidings Court | White Rose Way | Doncaster | DN4 5NU

Northampton: Jubilee House | 32 Duncan Close | Moulton Park | Northampton | NN3 6WL

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INTRODUCTION

All UK-incorporated companies are required to prepare a strategic report, as well as a directors' report, within their annual report unless they have an exemption. The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 came into force on 1 October 2014 and apply to financial years ending on or after 30 September 2013.

As well as all of the matters previously required in the business review section of the directors' report that must now be covered in the strategic report instead, the regulation also requires report preparers to place emphasis on the business story and understanding shareholder needs. The changes are intended to provide greater insight into the business through a clear focus on strategy, development and performance. The report should also provide a forward-thinking perspective and understanding of the principal risks and uncertainties facing the company.

All strategic reports must include:

- A fair review of the company's business
- A description of the principal risks and uncertainties facing the company

A strategic report should provide a balanced and comprehensive view of the company and, where appropriate, include analysis using financial (and non-financial for larger companies) Key Performances Indicators (KPIs).

For more information contact your local office specialist or visit

www.hawsons.co.uk/strategic-reporting.

“A GOOD STRATEGIC REPORT SHOULD PROVIDE A COMPLETE AND MEANINGFUL PICTURE OF THE COMPANY'S STRATEGY, DEVELOPMENT AND PERFORMANCE; BOTH PRESENT AND FUTURE”



Frequently asked questions

What is a strategic report?

A strategic report is a document that must be prepared by all UK-incorporated companies, unless exempt, in their annual report.

Who should produce a strategic report?

Small companies are exempt from the requirement to prepare a strategic report; all other UK-incorporated companies must include a strategic report in their annual report.

If your company meets two out of the three following criteria the company is not small and therefore will have to prepare a strategic report.

- Average number of employees is > 50
- Turnover is > £6.5million
- Gross assets are > £3.26million – not just the balance sheet total

Charitable companies must also, if they meet two of the three criteria, comply with the strategic report requirements like any other company.

There is no statutory requirement for an LLP to prepare a strategic report.

What makes a good strategic report?

A good strategic report should provide a complete and meaningful picture of the company's strategy, development and performance; both present and future.

Further details on strategic report requirements can be found on page 5.

What information must a strategic report include?

All strategic reports must include:

- A fair review of the company's business
- A description of the principal risks and uncertainties facing the company

The report should provide a balanced and comprehensive view of the company and, where appropriate, include analysis using financial (and non-financial for larger companies) Key Performance Indicators (KPIs).

The review of the business must provide a comprehensive analysis of the development and performance of the company's business during the financial year and the position of the company's business at the end of that year. The review must be consistent with the size and complexity of the business.

What are Key Performance Indicators (KPIs)?

Key performance indicators are factors by reference to which the development, performance or position of the business of the company can be measured effectively, as defined in Companies Act 2006. The directors should determine which measures have most reliance as indicators of performance and give reasons why each KPI that has been disclosed is key to the business.

Is a directors' report still needed?

All companies who have to produce a strategic report also have to complete their directors' report. Small companies, who are exempt from preparing a strategic report, also have to complete a directors' report, but with reduced disclosures.

Can principal risks be included in the directors' report rather than the strategic report?

No. Principal risks are a requirement for the strategic report.

What comes first in the annual report?

Although there are no set regulations on this, guidelines from the Financial Reporting Council (FRC) suggest that the strategic report should be presented at the front of the annual report and the directors' report at the back.

How can Hawsons help?

Preparing a strategic report could help companies look beyond current year earnings and provide a broader picture of shareholder value creation in their annual reports. At Hawsons we understand the delicate balance between meeting our compliance objectives and providing you with a meaningful, efficient and comprehensive strategic report.

For more information contact your local office specialist or visit www.hawsons.co.uk/strategic-reporting.

Contact details can be found on page 7.



“PREPARING A STRATEGIC REPORT COULD HELP COMPANIES LOOK BEYOND CURRENT YEAR EARNINGS AND PROVIDE A BROADER PICTURE OF SHAREHOLDER VALUE CREATION IN THEIR ANNUAL REPORTS”

Strategic report requirements for large and medium-sized companies

The following table summarises the Companies Act 2006 strategic report requirements for large and medium-sized companies.

The emphasis of the regulatory guidance is on telling the business story and understanding shareholder needs, with greater focus placed upon the context of the business and the long-term principal risks and uncertainties underpinning the business, as well as future strategic prospects.

Small companies are exempt from the requirement to prepare a strategic report (see definition of a small company on page 3).

There are also a number of requirements that are mandatory only for quoted companies. Please contact us for further information on these.

REQUIREMENT	LARGE COMPANIES	MEDIUM COMPANIES
Fair review of the business	YES	YES
Principal risks and uncertainties	YES	YES
Analysis of the development and performance of the business	YES	YES
Analysis of the position of the business	YES	YES
Analysis using financial KPIs	YES	YES
Analysis using non-financial KPIs	YES	NO
Additional explanations of amounts included in the annual accounts	YES	YES
Approval by the board	YES	YES

SUMMARY

All UK-incorporated companies are required to prepare a strategic report, as well as a directors' report, within their annual report unless they have an exemption. The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 came into force on 1 October 2014 and apply to financial years ending on or after 30 September 2013.

Rather than meeting a detailed checklist of disclosures, as in the previous business review section of the annual report, a strategic report must focus on telling the business story and understanding shareholder needs.

Preparing a strategic report could help companies look beyond current year earnings and provide a broader picture of shareholder value creation in their annual reports.

At Hawsons we understand the delicate balance between meeting our compliance objectives and providing you with a meaningful, efficient and comprehensive strategic report.

For more information contact your local office specialist or visit www.hawsons.co.uk/strategic-reporting.

Contact details can be found on page 7.

Not yet a Hawsons client?

We offer all new customers a free initial, no-obligation consultation.

This consultation will enable you to have a detailed discussion about your business and how Hawsons can help your company with strategic reporting.

Please contact your local office for more information.

Contact details on page 7.



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OUR SPECIALISTS

www.hawsons.co.uk/strategic-reporting



Chris Hill
Sheffield
Partner
0114 266 7141
cih@hawsons.co.uk



Paul Wormald
Doncaster
Partner
01302 367 262
pw@hawsons.co.uk



David Cairns
Northampton
Partner
01604 645 600
davidcairns@hawsons.com



Simon Bladen
Sheffield
Partner
0114 266 7141
slb@hawsons.co.uk

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