Written evidence from the Institute for Government (IGA15)

This note sets out the Institute for Government’s response to the call for evidence from the PACAC inquiry into government accounts.

The format of monthly management accounts

1. What is the purpose of monthly management accounts?

Monthly management accounts are a key part of the management information used to inform the decisions of senior leaders within departments. Their purpose is therefore entirely linked to the decisions these leaderships are taking.

- Some purposes are fundamental – all leaders must, for instance, be actively managing spending (and revenues through charges, etc) against budgets. Management accounts are the fundamental tool used to do this.
- Similarly management accounts are necessary to managing performance. This requires financial information to be combined with other performance data, and presented as a whole.
- Another purpose may be to manage the allocation of resources, and in particular people, across different areas of the department. This was one of the key features of the MINIS management accounts system, which Lord Heseltine used to gather information, and make decisions, about the allocation of staff across the departments he ran.

2. How far do monthly management accounts currently meet this objective? Is their quality consistent?

Without access to the accounts, it is difficult to answer this question exactly. However, it is clear that there have been improvements in the quality of management information, and of the accounts, within Whitehall in recent years. There have been a number of drivers of this:

- The introduction of highly experienced non-executives into departments created a significant new demand for quality management information.¹
- In some departments, such as the MoD, ministers have personally overseen improvements in the quality of information and how this is used in decision making.
- Across Whitehall, following the 2013 Financial Management Review, the Government Finance Profession has focused on improving management accounting across Whitehall.²

However, while quality is improving, the starting point was weak, as highlighted in successive reports from Lord Browne, the Government’s Lead Non-Executive director.³

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¹ See http://www.instituteforgovernment.org.uk/publications/improving-decision-making-whitehall
² See http://www.instituteforgovernment.org.uk/blog/13137/the-finance-function-forges-ahead/ for further details
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3. *How can the monthly management accounts be improved to ensure they are more useful to decision makers, particularly Permanent Secretaries, Departmental Boards and Ministers?*

It is vital that ministers maintain their commitment to having experienced non-executives within departments.

It is also vital that the Treasury maintains its commitment to implementing the Financial Management Review (FMR). Improvement in management information takes years to successfully implement. PACAC may wish to ensure Whitehall implements its current commitments under the FMR, rather than letting Whitehall invent some other new initiative to get them off the hook.

Where management accounts are being used for financial control, PACAC may wish to ensure the accounts include:

- basic information like the budget set at the start of the year; the year-to-date expenditure or revenue; the latest forecast of full year expenditure and income;
- this basic information will usually be complemented by a commentary explaining any variation between budgets and actual expenditure or revenues;
- finally the accounts need to reflect the responsibilities within the department, with the numbers broken down and associated with named managers responsible for those particular parts of the budget.

When leaderships are managing performance, the information with the management accounts should be capable of giving the senior leaders insight into some basic questions: is performance is getting better or worse (i.e. trend information)? Is performance is good or bad compared to the performance of similar organisations (i.e. benchmarking information)?

4. *How could outcomes be integrated into the monthly management accounts, such as proposed by the MINIS system promoted by Lord Heseltine?*

Information on outputs and outcomes is central to the performance management purpose of management accounts. The principles of this are set out well in Annex F of Lord Heseltine’s *No Stone Unturned* publication.

The Financial Management Review set in train work to greatly improve so called “costing information”, linking inputs to outputs to outcomes. The Autumn Statement (paragraph 1.307) committed to the established of a Costings Unit, to support departments in forensically developing such information. This is an important initiative, and PACAC may wish to check progress on its implementation.

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5. **How far can the monthly management accounts be made public?**

The format and types of data used in management accounts could easily be made public. And much of the data itself could potentially be made public. This should be published in an easy to use format, accompanied by appropriate documentation.

However, the purpose of management accounts, like all management information, is to inform the decisions of the management of the department. The management’s ability to interpret this information is critical to its value. Much of the information in the accounts is not, and should never be, of the quality of National Statistics. Timeliness is vital for management accounts, and therefore rapidly produced approximate data that experienced managers can interpret is preferable to data that takes a long time to produce. As such, it is unlikely to be helpful to contemporaneously publish the whole management accounts.

Parliamentary committees may wish to examine management accounts during retrospective investigations. Where issues being picked up in the management accounts as they were occurring? What actions where management taking in light of the information coming through the accounts?

**The current utility of departmental accounts**

1. **How useful are the accounts as a tool to scrutinise the Government?**

Audited accounts are a vital part of the scrutiny of government. However, much of the information in departmental accounts could be presented more succinctly than it currently is.

2. **Which parts of the accounts are used by those scrutinising the Government? Which parts are not?**

The Institute for Government uses the main spending tables from the departmental accounts. We also use the text in the accounts to examine how and why expenditure or income differed from the plans set out at the start of the financial year.

The Institute’s Whitehall Monitor ranks the transparency of departmental spending plans, including how they are reported in departmental accounts. The plans inevitably change, so what matters is that departments explain the changes, providing clear, easily accessible explanations of what is occurring. The figure below ranks departments in this regard and many are found wanting. The Treasury is in joint last place.

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5 See *Whitehall Monitor 2015*, pages 46-48 for full details
Reforms to the format of departmental accounts

1. How could Departmental Accounts be improved to meet the needs of Parliament and the public?

2. What if anything is missing from the Treasury 2014 Command Paper (PDF 1.52MB) which laid out the new accounting procedures for 2015–16?

PACAC may wish to explore with departments how some standard notes might enhance the transparency of the accounts.

- It is often difficult to establish how spending changed from the government’s original plans. A note could be added to the account that shows how expenditure changed from the level first announced in a Spending Review to the final outturn figure. This note should contain brief, simple explanation of what lay behind significant revisions.

- It is often difficult to establish the level expenditure in key areas, and how this has changed over time. The segmentation analysis provided in the accounts varies over time, for some unavoidable (and unfortunately some avoidable) reasons. Select Committees could require departments to add a small number of notes to the accounts that set out audited figures for expenditure in areas of sustained political interest.

In addition, some fairly basic changes could be made to enhance the usefulness of the accounts.

- The basic spending tables should have a consistent format across departments.

- All departments should show DEL spending excluding depreciation (and not just DEL spending including depreciation), so that figures in the departmental accounts can be reconciled with the Treasury’s published control totals (with exclude depreciation).
All departments should public the basic tables in excel, and not just in pdf format, to allow easy analysis of the numbers.

Future improvements to accounts

1. Who should have control over the format of Departmental Accounts and Whole of Government Accounts?

The Treasury currently has responsibility for the reporting framework of departments, and more generally the Treasury exercises many of its financial control powers on behalf of Parliament. This system has served the UK well over many decades, underpinning the UK’s reputation for credible and reliable financial information.

However, over the past twenty years, there has been a marked decline in the transparency of Treasury documentation. As the Institute noted after the 2015 Spending Review:

Since 1997, Budget speeches and other fiscal documentation have steadily become less reliable. This Spending Review was no exception, and [some examples] could easily be described as (intentionally) misleading. It might be useful if Parliament set some bounds on what is acceptable when ministers are informing the House of Commons (and the country) about changes to fiscal policy.6

The best solution would be for Parliament to establish clearly what it expects from Treasury in this regard, and for the Treasury to work to Parliament to achieve this.

2. What independent body should advise on the format of Departmental accounts in the future?

3. How can we judge the success of Departmental Accounts as disclosures of information to the public?

The Institute for Government employs some fairly simple tests when judging the transparency of public spending information: are the original budgets clear? Are the revisions to those budgets clear, accompanied by simple explanations of why the revisions occurred? Are the outturns against those budgets clear, accompanied by simple explanations of why outturns differed from the (revised) budgets?

We expect an interested and numerate member of the public to be able to find this information, preferably in a single, easily accessible place.

Improving scrutiny of financial information from the Government

How can financial scrutiny of Departments in both Parliament and outside be improved?

See above.

6 See http://www.instituteforgovernment.org.uk/blog/12956/the-spending-review-what-really-happened/