Utility of government accounts

Thank you for your letter [Link] in which you posed some additional questions following the evidence session on the utility of government accounts.

Alongside this letter I enclose Annex 1 entitled Responses to PACAC Inquiry into Government Accounts follow up questions which sets out my responses to the follow up questions, supplemented with Annex 2 containing my comments in relation to the Building Public Trust Awards and comments of the judging panel, and Annex 3 detailing the four sources of information on public finances, which I hope you will find useful. My main points are:

• Government’s audited accounts are part of the bedrock of parliamentary accountability. The audited accounts, together with more concise and accessible annual reports, are the formal and trusted record of an organisation’s activities and financial performance throughout the financial year. I support HM Treasury’s efforts to ensure that public bodies’ annual reports and accounts are as clear as possible, including its Simplifying and Streamlining Accounts project to which the NAO made a contribution.

• It is my view that interest from Members in public bodies’ accounts and good public financial management has the beneficial effect of encouraging public bodies to produce more accessible and higher quality annual reports and accounts.

• On a practical level, it is important that preparers of government accounts use the Performance Report section in the annual report and accounts to communicate clearly the messages from the accounts to users. Preparers of accounts should, where appropriate, make better use of graphics, especially trend analyses, to provide insight into the accounts and their context. Graphics should be accompanied by concise, plain English that provides an open and objective commentary.

• To the same end, my staff produce highly accessible outputs providing overviews of the Whole of Government Accounts and also of each department’s spending in the most recent financial year, summarising the main findings from our work. I will give thought to evolving this work, in consultation with Members.

• My staff use the information gathered during the course of a financial audit to inform value for money and other audit work. This enables me to better direct my value for money audit work on an organisation towards those areas of public spending most at risk from poor value for money. We also look across the bodies we audit to draw out lessons of wider applicability for the public sector.

• Management information should be included in the annual report section of the accounts that links budgets, inputs, activity, financial performance and outcomes to the underlying accounting information. The current ways of measuring financial performance are not integrated with reporting of actual value or performance delivered
from a department’s operations. This makes it hard for a Member or for the public to hold government to account.

- A solution is to use Single Departmental Plans, of which I am supportive, to develop more robust business planning, something we are already starting to see - although starting from a low base. This is hampered by the fact that the detailed Plan content is not included in the public version and therefore cannot be used to hold government to account.

- Government spends a considerable amount of money on projects that span multiple years. Yet, public bodies are constrained in the way they spend public funds on those projects in any one year, owing to annually voted control limits set in place by HM Treasury through the Supply and Estimates process and approved by parliamentary vote. These annual parliamentary control limits create behaviours that may not represent value for money for the taxpayer and that do not enable public bodies to function as effectively as a business might. This dilemma is ripe for consideration again.

I and my staff at the National Audit Office will be very happy to continue to support PACAC and others in Parliament in understanding and improving government accounts.

Enc: Annex 1 - Responses to PACAC Inquiry into Government Accounts follow up questions
Annex 2 - Building Public Trust Awards judging panel comments
Annex 3 – Four sources of information on public finances
Annex 1

Responses to the Select Committee’s questions

1 You mention in question 92 that you think that the Treasury should be encouraged to continue with its streamlining review and take it quite a bit further. Do you have any specific suggestions of items that could be removed from these [accounts] documents?

2 I am supportive of HM Treasury’s Simplifying and Streamlining Accounts project1 which aims to improve the accessibility of government’s annual reports and accounts. Changes resultant from the Project were introduced for the 2015-16 financial year.

3 The financial statements (the accounts) are a main accountability document forming the statutory, publically audited record of a department’s financial conduct in its use of public money to deliver public services, and of its compliance with parliamentary authorities. Government accounts are the bedrock of the parliamentary accountability cycle and are prepared in accordance with the Government Financial Reporting Manual (the FReM).2

4 My view is that, in general, the accessibility of the information within annual reports and accounts can be enhanced through:
   - focussing on quality not quantity of information i.e. removing immaterial disclosures to enable more focus on the material issues, helping readers see the wood from the trees;
   - replacing lengthy narrative with insightful graphics and summary data and better use of accompanying narrative, in concise, plain English;
   - greater use of trend analyses, for example showing how different types of income, expenditure, assets or liabilities change over a longer period enabling more effective scrutiny instead of comparing performance only to the previous year, which can be taken out of context; and
   - management information that links budgets, inputs, activity, performance and outcomes to the underlying accounting information. This would enable users to assess more easily the value for money of decisions made by the entity;
   - providing companion documents and guides.

5 Looking ahead, this information, particularly where it can be accessed digitally and is tablet-friendly, would potentially satisfy many more users’ needs.

6 As with any change project, it will be important that HM Treasury considers to what extent the project is meeting its expected aims. I would see consultation with stakeholders as an essential component of a follow up review. A follow up review will enable HM Treasury to determine what further enhancements are required.

7 As I remarked in my comments for the Excellence in Public Sector Reporting Award at

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2 The FReM sets outs the requirements to disclose net expenditure (or net income as appropriate). The FReM is an HM Treasury document which serves as a technical accounting guide to the preparation of accounts for public bodies. Changes to the FReM are agreed by HM Treasury’s independent Financial Reporting Advisory Board (FRAB). The FRAB is comprised of experts from the public and private sector, including a Member of Parliament and a representative of the NAO.
the Building Public Trust Awards\(^3\), looking across public sector reporting in general, the
main improvements I have seen this year include a more logical flow to the annual reports
and accounts, and a trend towards using clearer diagrams and pictorials to help explain
organisational structures and performance. I also saw progress in some bodies in the areas
of transparency, clarity of message and linking risks to strategy and performance. I provide
further details of my remarks and the judging panel's comments in Annex 2.

8 Risk reporting is still an area where I see a high level of variability, with some
government entities simply noting that they have a risk management process in place. This
clearly is not enough. Also, in my view, there is still a little too much focus on the positive in
some public sector reporting, as opposed to frank and balanced communication.

9 My staff will continue to engage with audited bodies with a view to supporting the
simplifying and streamlining agenda. The NAO and I would be happy to work with the
Committee, HM Treasury and other parties in moving this agenda forward.

10 Were you aware through your participation on the working group on the Treasury
project on accounts, whether the audience for the accounts were consulted during
that project and what they said they wanted from accounts?

11 The NAO was aware, through its involvement in the Streamlining and Simplification
Project, of HM Treasury’s consultation and its approach. As HM Treasury sets out in the
Command Paper (Cm 8905), the audience for the accounts was consulted during the
project. The consultation involved Parliament, the public, and government, as well as the
NAO.

12 I draw the Committee’s attention to paragraphs 1.6 and 1.7 of Cm 8905, which provide
an overview of the consultation and its findings:

“1.6 Between April 2013 and October 2013, HM Treasury conducted a review of the current
ARA requirements and documents that are produced under existing guidance, undertook a
significant amount of outreach work with users, potential users, and preparers of the ARA,
and reviewed private and public sector best practice worldwide. HM Treasury also launched
a public consultation to engage with as wide a range of users and potential users as
possible.”

13 In terms of what the audience for accounts said they wanted, the Command Paper sets
out the following:

“1.7 The key findings from this review and outreach work were:

Accountability remains the primary objective of financial reporting in central government,
with users interested in how much was spent against budgets and Estimates and how
entities are accountable to Parliament.

Users place a strong emphasis on the inclusion of audited financial information but
increasingly they are also interested in longer-terms trends of expenditure and wider
performance against objectives.

Current reporting is viewed as difficult to navigate and a coherent narrative message is
often lacking. Underpinning this is a limited use of materiality to limit disclosures and a

perceived inconsistency between the various different central guidance documents produced for preparers.

These issues are not limited to the public sector. A healthy “cutting clutter” debate is taking place in the private sector following a recognition that mandatory requirements for a mass of detail is obscuring the ‘big picture’ and limiting the usefulness of ARA.”

14 The project was overseen by HM Treasury’s independent Financial Reporting Advisory Board (FRAB). FRAB considers all matters relating to the Government Financial Reporting Manual (FReM) which is the guidance used to prepare central government accounts. FRAB includes a Parliamentary representative to provide input from a Parliamentary audience perspective, as well as a range of independent and external members.

15 How can we incentivise departments to make their accounts and annual reports more accessible to the general public?

16 In my view, where Parliament demands more accessible and transparent accounts, this should act as a powerful incentive for departments to improve the accessibility of their annual reports and accounts, and encourage a virtuous circle of improvement. I see a growing appetite amongst Parliamentarians for greater engagement with government’s financial management and performance through the lens of its annual reports and accounts. This Committee’s inquiry is a clear example of this increased focus. More widely, the Committee of Public Accounts and select committees hold evidence sessions which draw on material from annual reports and accounts to assist them in holding government to account.

17 When will the dashboard of information for the 2015-16 accounts be published?

18 Shortly after the evidence session which I attended in May, I published an online dashboard which provides a snapshot of the Whole of Government Accounts. This is an interactive visualisation of the nation’s finances for the past 5 years. I plan to evolve this existing dashboard to enhance its utility. I am very happy for my staff to work with the Committee to understand what would be useful and feasible, recognising that this would require investment. I would see this as a positive and important step in supporting Members, and indeed the public more widely, to scrutinise public spending.

19 Currently each year we provide each Select Committee with a digest of our audit work relevant to the respective Department from the last financial year. We call these digests ‘Departmental Overviews’ and they are intended to support the Committee’s evidence session on their Department’s Annual Report and Accounts. As well as being a summary of the Department’s performance from the last financial year, they include facts and figures on the department and how cross-government issues are relevant to that department. Departmental Overviews, and increasingly our other products, are designed specifically to be read digitally on MPs’ iPads.

20 I have offered to the Committee of Public Accounts, and by extension to all Members, training for those who are interested in better understanding how to interpret a Department’s annual report and accounts. A number of Members have already taken me up on my offer. I would like to re-iterate this offer to your committee. We recently held an exhibition in Parliament to explain our role to Members and we have written to MPs to explain how they can contact the NAO with a view to supporting Members in their engagement with government’s finances.
21 You said the Whole of Government accounts show that the government is spending more money than is coming in by about £70 billion. Professor David Heald has said that the Whole of Government accounts overspend is “rendered less transparent as the accounts describe it not as a deficit but as net expenditure.” Do you agree with Professor Heald and how do we ensure this does not happen in the future?

22 I consider the term “net expenditure” to be clear in its meaning, however I can see that the term ‘deficit’ may have more resonance for some at the Whole of Government Account level. Under the different measurement systems for government finances, of which there are four (I refer you to Annex 3), the term ‘deficit’ has a different meaning. Using the term ‘net expenditure’ in the Whole of Government Accounts avoids confusion as it is consistent with the accounts of the underlying consolidated bodies in which it is generally apt.

23 Outside of the public sector, accounts are prepared to International Financial Report Standards (IFRS). IFRS provide a common global language for business affairs so that company accounts are understandable, relevant, reliable and comparable across international boundaries. IFRS have been adapted for the public sector in the FReM and likewise provide a consistent view of spending across government. Under IFRS, commercial bodies are required to prepare a statement of profit or loss and other comprehensive income, known as the statement of comprehensive income. The term profit or loss is generally not a concept relevant to public service delivery bodies, who are, typically, net consumers of resources. On this basis, HM Treasury has determined that, by analogy, the term ‘net expenditure’ is the most appropriate to the circumstances of the public sector and better aligns with the requirements of IFRS.IAS 1. This has been endorsed by FRAB in October 2009.4

24 Regardless of the accounting terminology used in the accounts, it is important that preparers of government accounts use the Performance Report section in the annual report to communicate clearly the messages from the accounts to users.

25 As the way in which government does business continues to develop, I see financial reporting challenges becoming more commonplace – as departments encounter issues which are either increasingly complex, need enhanced collaboration with other bodies to resolve, or both. I have concerns over government’s capacity to effectively and clearly report on these to Parliament.

26 Following the recent Public Accounts Committee hearing on the Whole of Government Accounts and my reports on Financial Investments; Pensions; and Provisions, Guarantees and Contingent Liabilities, I plan to retain my focus on the clarity of reporting of cross government financial risks and their management. The Committee of Public Accounts evidence session sought to ensure that the progress in managing significant financial risks - such as the unfunded pension liability, clinical negligence and nuclear provisions and the government’s investment portfolio - is as clear as possible to Parliament and the public.

27 Identify some of the departments which perform best in regarding to good and bad practice in transparency in accounts and annual reports. Identify some examples from the accounts that are published for the year 2015-16 in HM Treasury’s new format.

The annual Building Public Trust Awards recognise good practice in transparent and accessible annual report and accounts including for bodies in the public sector. As noted above, in paragraphs 6 and 7, I set out my general view of the main improvements we have seen as well as areas where I think there is more to do.

This year the Building Public Trust in Corporate Reporting Award for 'excellence in reporting' in the Public Sector (awarded jointly by PwC and NAO) was won by Network Rail. As a company, Network Rail prepares its accounts under IFRS and follows corporate reporting requirements set out in the Companies Act. This is also the case for Highways England which was highly commended. The FReM is also IFRS based and draws on good practice in corporate reporting from the Companies Act. The former department DECC, was also highly commended. DECC is required to prepare its accounts inline with the FReM. The Judging Panel’s comments for the winner and those highly commended are included in Annex 2 which the Committee may find useful in answering this question.

My report ‘Government’s management of its performance: progress with single departmental plans’, identified the new HM Treasury requirement for the Performance Report in annual reports to be consistent with Single Departmental Plans as a positive step. I also note that in its response to the Committee of Public Accounts’ report on Accountability to Parliament for taxpayers’ money, HM Treasury has committed to revise guidance further. Every central government department will from 2016-17 be required to publish a full accountability system statement, and identify how the financial data reported in their Annual Report and Accounts, and the performance indicators set out in their SDP, support it. My teams will continue to discuss these matters with HM Treasury.

How many queries do you receive regarding accounts and how does that compare with queries regarding VFM? Can you provide a breakdown of what these queries focus on?

As the NAO reports in our own annual report and accounts, I and the NAO received 630 pieces of correspondence in the 2015-16 financial year. Our records show that since January 2016, we have received over 500 letters from members of the public and a further 80 from Members. It is clear that the volume of correspondence both I and the NAO receive is increasing, which we welcome.

The correspondence covers a wide range of matters. We do not specifically track whether correspondence relates to value for money issues or accounts, although much of it does relate to public spending in some way.

You told us that your value for money teams use the accounts to get ‘a picture of the control environments’ and they ‘get a lot out of it’. Can you show us VfM reports that have used the accounts in this way?

Through my audit of an organisation’s annual report and accounts I get a very good understanding of the organisation in question. This enables me to better direct my value for money audit work on that organisation towards those areas of public spending most a risk from poor value for money.

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1 Treasury Minutes. Government responses to the Committee of Public Accounts on the Thirty Seventh and the Thirty Ninth reports from Session 2015-16; and the First to the Thirteenth reports from Session 2016-17, p 9-10
36 For example, my recent report “Nuclear power in the UK” drew on the knowledge acquired from my financial audit of the Department of and Energy and Climate Change group financial statements. This close collaboration between my vfm and financial audit staff enabled us to highlight future significant increases in costs to electricity consumers owing to falls in the wholesale price of electricity. Changes in the wholesale price of electricity directly impact top-up payments resultant from contracts between the UK Government and constructors of low carbon power generation facilities, guaranteeing a price for electricity in return for building low carbon power stations. These top-up payments will be paid for via a levy on electricity retailers and, ultimately, on consumers.

37 Our value for money audit work on welfare and benefits also relies heavily on our financial audit assessments of controls that prevent, or detect and correct error and fraud in departments. Much of our value for money audit work on fraud and error specifically examines the controls that exist, and these studies are often the result of financial audit work that has identified issues, or they involve our financial audit teams centrally in the work we do. Examples include the work we have done on fraud in contracted employment programmes which set out to examine “the controls the Department for Work and Pensions has in place to deter, detect and deal with fraud and improper practice in employment programmes”. More recently our investigation into the flexible support fund considered the control environment in detail and drew on previous financial audit work. Many of our findings draw heavily on detailed financial audit findings about controls, for example in our work on contract management of medical services we identified control weaknesses in invoicing for assessments.

38 How do we make sure that any progress in improving the use of information inside departments, as a result of NAO and PACAC efforts, is sustained and becomes normal practice?

39 I was encouraged to read written and oral evidence for this Inquiry from numerous sources which supported the principle of the Government’s new Single Departmental Plans. In my recent report, “Government’s management of its performance: progress with single departmental plans”, I noted that the development of internal Plans is already helping departments to develop more robust business planning, although this starts from a low base. However, the great majority of the detailed Plan content is not included in the public version and therefore cannot be used to hold government to account or encourage departments to be more open about the information they use for decision making.

40 The Plans should be published in more detail and regularly if they are to be used to more effectively scrutinise the government and should be designed to be used as a

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package with annual reports and accounts. Users ought to be able to discern from the Plans what value has been created from resources used, and how that has changed over time. As you may be aware, the Committee of Public Accounts examined progress with Plans alongside the spending review process, on 17 October, with witnesses from both these departments and may make recommendations of their own.

41 I noted in this report that the Plans are only the latest incarnation of a performance framework for government and that there is a risk they fall into disuse, as have previous frameworks, such as PSAs and Business Plans, unless there is further work by Cabinet Office and HM Treasury to embed the approach into the civil service culture.

42 The Plans offer a top down approach to measure and report performance, it is equally valid to consider how Departments use information in a bottom up approach to improving performance. I published “Managing Business Operations – what government needs to get right”, to share what we the NAO are learning in this area.\textsuperscript{11} It provides an overview of our understanding of the problems government organisations face, the actions taken to address them and our analysis of what government needs to get right. The publication identifies three ‘information’ themes across government to manage and improve process performance which are: having the right information, using information to improve and customer focus.

43 It is important to recognise the work of the Committee of Public Accounts in improving the use of information within government. For example, the Committee of Public Accounts recently published the reports “The government balance sheet”, “BBC critical projects”, and “Efficiency in the criminal justice system”\textsuperscript{12,13,14} during the 2016-17 session. These reports, and others, make recommendations for improving the use of information within government.

44 What have you learnt from the accounts comparison between the MOD and DfT e.g. which managed major projects more efficiently according to the accounts?

45 Through my audit of an organisation’s annual report and accounts I get a very good understanding of the organisation in question. This understanding enables me to better direct my value for money audit work on that organisation towards those areas of public spending most at risk. Building on this, since 2013-14, I have grouped our audit teams by departments facing similar strategic issues. By bringing together audit teams in this way, we are more likely to increase our impact by drawing out synergies, comparisons and sharing good practice across government. In line with our approach, one of the groupings for our audit teams relates to our audit of departments that are responsible for the delivery of many of our major infrastructure programmes and projects. This grouping includes DfT and MoD.

46 My recollection of my intended meaning in giving the DfT and MoD as examples was by way of illustration for the benefit to be had in comparing and understanding


\textsuperscript{12} The Government Balance Sheet, Nineteenth report of session 2016-17, \url{http://www.publications.parliament.uk/pa/cm201617/cmselect/cmpubacc/485/485.pdf}

\textsuperscript{13} BBC critical projects, eight report of session 2016-17, \url{http://www.publications.parliament.uk/pa/cm201617/cmselect/cmpubacc/75/75.pdf}

\textsuperscript{14} Efficiency in the criminal justice system, first report of session 2016-17, \url{http://www.publications.parliament.uk/pa/cm201617/cmselect/cmpubacc/72/72.pdf}
organisations, drawing on the knowledge we gather both through our annual accounts audit process and our value for money audit work. The annual accounts audit process is hugely valuable in contributing to our insights on both organisations (including their significant subsidiary bodies). While I would not expect the accounts by themselves to answer the question of which body manages major projects more efficiently – that is a complex question of judgement, involving more variables than are available in the financial statements – I will give you an example of the sort of comparative aspects I am talking about.

47 The more you look at these organisations together, the clearer it becomes that some of their biggest challenges are common to both. For example, both have challenge in terms of the size of their major project portfolios; the interdependencies in those portfolios; how to cost major projects accurately; delivering to time and cost; and in recruiting and retaining enough of the right staff to maintain the right capabilities.

48 Following on from that, there is a great deal of comparative work that we can do. We are building up to do more of this by way of formal outputs, but this also includes working with those Departments on a more informal basis in between our major outputs to help them learn from each other, and from our perspective looking over both. The MoD, for example, has an organisational unit dedicated to advice and assurance on project costings – and there is value in professionals there having a dialogue with their equivalents in Transport. That does not mean that there is one perfect structure that I would recommend every Department undertakes – there are important differences, for instance in how much the Department for Transport delivers through Network Rail. Recognising these challenges, and seeing through all of our work the different ways Departments go about facing up to them, is valuable because it helps push best practice to the fore.

49 My report “Delivering major projects in government: a briefing for the Committee of Public Accounts”\[15\], demonstrates how my teams with expert knowledge of individual departments have collaborated effectively to produce useful insight for Parliament into the management of major projects across government.

50 Could you provide an example of an NAO VfM report where the teams have used either DEL and AME or the programme/administrative spend split to generate useful conclusions about departments? Are you content that departments are consistent in the way that they apply these distinctions?

51 The trade-offs and interactions between types of spending are frequently covered in our reports, particularly in considering the possible AME costs of trying to reduce DEL or administrative spending.\[16\] For example my report “Universal Credit: progress update”, in 2014 raised concerns about reductions in training costs for staff and the consequences this might have on the success of the programme (including employment and benefit spending, or management of fraud and error).\[17\] In my report, “Personal Independence Payment: early
progress”, I highlighted the importance of successful programme delivery and operational performance in achieving wider benefit (AME) savings.\textsuperscript{18} This is not a new problem but just as departments sometimes make savings at the expense of other departments and wider public spending, it is critical that departments like DWP avoid DEL savings that lead to long term AME costs.

\textbf{52} My recent Explanatory Report on the Department of Health accounts 2015-16 highlighted that the department had undertaken a number of non-recurring actions to manage its outturn against annually voted control totals.\textsuperscript{19} For example, the Department reclassified an accrual (expenditure that has been incurred by the Department but no invoice has been received) to a provision (monies set aside for a future, unavoidable cost for which the timing or amount is less certain than for an accrual). I agreed with this treatment however this had the effect of reducing DEL and increasing AME. The Department also made a switch in its budget away from monies set aside for long term investment in favour of meeting short term day to day spending to live within its voted control limits. While this switch was approved by HM Treasury, I did not consider it part of a sustainable plan to secure the financial sustainability of the NHS in England. This is the power of public audit; my Report reveals the impact of these and other non-recurring actions undertaken by the Department, enabling Parliament to more effectively scrutinise government spending.

\textbf{53} The distinction between departments' management of DEL and AME spending is an area of active interest for our value for money audit work, and part of our wider aim to encourage better management of public spending. My report “Managing the welfare cap”, examines the changing controls that exist over AME spending in benefits and tax credits.\textsuperscript{20} In the report we are generally supportive of the improvements in oversight and understanding of changes in AME spending that departments have introduced, and the move to a more active approach to managing rather than simply reporting AME spending. The report discusses some of the challenges in defining different types of spending within the cap and in managing the process across multiple departments.

\textbf{54} These distinctions are problems that government has tried to grapple with. In my report “The introduction of the Work Programme”, I highlighted that DWP and HM Treasury agreed a funding arrangement sometimes called a ‘DEL-AME’ switch in which DEL funding for the programme depended on delivering AME savings through higher employment.\textsuperscript{21} This tried to overcome the natural incentive for DWP to reduce DEL and administrative spending at the expense of possible savings in AME.

\textbf{55} There are some challenges in defining expenditure but the accounts and audit process help to clarify and standardise approaches. In the case of DWP the distinction between DEL and AME does not cause major difficulties in classification. Programme and administrative spending is naturally a more difficult to enforce distinction but on the whole we have not identified any major failings in the way this is done or any major conceptual issues which could lead to wide variation across departments. The classifications that have created challenges in the past include questions like capital spending versus expenditure,

\textsuperscript{18} Personal Independence Payment: early progress, \url{https://www.nao.org.uk/report/personal-independence-payments-pip-2/}


\textsuperscript{20}Managing the welfare cap, \url{https://www.nao.org.uk/report/managing-the-welfare-cap/}

\textsuperscript{21} The introduction of the Work Programme, \url{https://www.nao.org.uk/report/the-introduction-of-the-work-programme/}
for example in the capitalisation and treatment of IT spending on Universal Credit.

56 You referred to the competing needs of control and accountability. We would be very interested in hearing any further thoughts you have about this issues and also any thoughts you have on how it might be resolved in the future. (13) How can “making more of a reality of the accruals aspect of accounting” happen in the future?

57 It is my firm view that government can be run in such a way as to acknowledge the importance of central spending control while recognising that flexibility to more easily manage budgets and projects over multiple years, partly through accruals accounting, can bring better value to the taxpayer.

58 Government spends billions of pounds on projects that span multiple years. Yet, public bodies are constrained in how much they can spend on those projects in any one year, owing to annually voted control limits set in place by HM Treasury through the Supply and Estimates process and approved by parliamentary vote. These annual parliamentary control limits can create behaviours that may not represent value for money for the taxpayer and that do not enable departments and their arm’s length bodies to function as effectively as a business might.

59 A number of arm’s length bodies enjoy some flexibility to, for example, defer or bring forward spending, sometimes through a cash reserve, subject to their purpose, maturity of financial management and effective support by their sponsor department. Examples of such bodies include museums and galleries, levy funded bodies such as Help to By (HMT) Ltd, regulators like Medicines and Healthcare Regulation Agency and public corporations such as Pension Protection Fund.

60 HM Treasury does operate a system of Budget Exchange whereby a Department may request to carry forward a forecast underspend against DEL through a reduction of current year voted control totals and a corresponding increase in the subsequent period. This must be undertaken through the Supplementary Estimates process, therefore only underspends forecast by December can be carried forward using this mechanism.

61 Performance against annually voted control limits, is reported within a Statement of Parliamentary Supply (SoPS) within each Department’s annual report and accounts. The SoPS is derived from the accounts based upon rules set out by HM Treasury. However, it is my view that the Spending Review would ideally set out performance and value measures at the start and link them to budget allocations. The Performance Report within the annual report and accounts would then report on what had actually been spent and what had been achieved with it. Whilst voted control totals are derived from the 5 year spending review settlements, performance against the spending review, which is arguably of higher public interest for reasons stated below is not reported in the annual report and accounts.

62 The spending review is a key political and fiscal event that attracts widespread parliamentary and public interest. HM Treasury carries out spending reviews to allocate funding across the government’s priorities, set limits on spending and define the main outcomes that the public can expect the government to achieve with its resources. It is the government’s major tool in planning medium-term (in the most recent case, 5 years) expenditure and an opportunity to reform the way services are provided. The spending review is one of the main ways for the centre of government to work with departments to ensure that public expenditure is controlled. Once spending reviews are complete, departments use their formal settlements to set the parameters for more detailed budgeting
We find ourselves in a situation where we have four ways of measuring financial performance: the accounts (which ultimately form the Whole of Government Accounts); the Statement of Parliamentary Supply (SoPS) (derived from the Spending Review); the statistical framework (measures of ‘debt’ and the ‘deficit’ on a basis that enables comparison with other European countries); and the OBR’s fiscal sustainability reporting. I include a description, along with advantages and disadvantages of each measurement method in Annex 3. None of these measures are integrated with reporting of actual value or performance delivered (see also my comments on Single Departmental Plans) from a body’s operations. This, I am sure, makes it hard for a Member or for the public to hold government to account.

You will be aware of the Procedure Committee’s inquiry in the Scrutiny of the Government’s Supply Estimates. I am conscious there may be crossover, particularly in terms of reporting performance against voted Estimates, which become the voted control totals as reported in the SoPS. The Committee may wish to recommend, perhaps through liaising with the Procedure Committee, a consultation on how reporting against these four measures may be simplified. For example, whether performance against the spending review should be included in Single Departmental Plans or the annual report and accounts via a simple graphic. I would be happy to work with the Committee and HM Treasury should there be such a consultation.

Prof David Heald said: “knowledge that government entities have delivered accounts and secured clean audit certificates is highly relevant to public confidence on the management of public finances. Since the cessation of the C&AG annual report on financial report and auditing this summary information appears not to be publically available”. How do you think this information could be made available in the future?

There are a number of ways in which this information could be made available. In particular I wonder whether it may dovetail with the enhanced dashboard concept I proposed, and I will give some thought to this.

I would like to add that the C&AG annual report has evolved to become more relevant to Members into what I now call Departmental Overviews. I refer to Departmental Overviews in paragraph 16.
Annex 2

Building Public Trust Awards judging panel comments

Building Public Trust in Corporate Reporting Award for 'excellence in reporting' in the Public Sector (awarded jointly by PwC and NAO)

Winner - Network Rail Limited

Network Rail marks its return to the public sector with a well-balanced, readable and attractively designed annual report that makes strong use of graphics. As well as reporting openly and transparently on instances where it has failed to meet KPI targets, Network Rail provides detailed yet accessible information on its risks, linking these to its strategic objectives and identifying related actions. It also goes further than many other public bodies by including a specific statement on its risk appetite. “I like the honesty of the reporting, and the fact that it names the people in charge – giving a sense of accountability,” commented a judge. Another praised the “high degree of transparency on performance and KPIs.”

Highly commended

Department of Energy & Climate Change

Now absorbed into the Department for Business, Energy & Industrial Strategy, DECC’s final annual report as a distinct department is highly commended for its clarity, navigability and strong focus on the department’s strategic objectives. The reporting is well presented and follows a logical progression, aided by good use of sign-posting with icons to guide the reader and illustrate the linkage between performance and strategy. The text is frequently enlivened through strong use of graphics, most notably in the sections on governance arrangements and organisational structure. “A clear report – very simply done and concise,” said a judge. Another commented: “For me, this report does demonstrate DECC’s performance in a very clear way.”

Highways England

Highways England presents its strategic aims up-front and then sets out to describe clearly how it has tackled them, using lively cases studies to illustrate the challenges it faced during the year and the actions taken in response. Smart use of signposting throughout the report makes it easy to follow, and the use of overview graphics is impressive, especially in demonstrating performance against targets and describing the organisation’s governance structures. The regional impacts of the roads strategy are clearly articulated, through drill-downs into specific areas of the country such as the Midlands. The judges made special mention of the insights provided in the section on people, outlining the people strategy and how this supports the overall objectives.
Annex 3

Four sources of information on public finances

1. HM Treasury - Autumn Statement and budget cycle – setting the government’s financial strategy

What it is:

- Statement of spending priorities and the allocation of the £800 billion of annual spend by government.
- Includes forecasts of the impact of the budget on key fiscal measures – Public Sector Net Debt and Public Sector Net Borrowing (the deficit)
- Forecasts are independently verified by the Office for Budget Responsibility.

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Limitations</th>
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<tbody>
<tr>
<td>Sets finance strategy for government</td>
<td>Focuses mainly on short to medium term</td>
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<tr>
<td>Significant Parliamentary coverage and scrutiny</td>
<td>Can be dominated by headline measures and issues that are not of a strategic nature (Pasty Tax)</td>
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<tr>
<td>Enables assessment of cross government financial plans</td>
<td>Does not provide detailed impacts on the government balance sheet, as the focus is on broad measures such as Public Sector Net Debt and Public Sector Net Borrowing (the deficit)</td>
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<td>Focuses on the major elements of annual budget allocation</td>
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2. Office for National Statistics - National statistics – up to date performance

What it is:

- Real-time measures used by HM Treasury to assess the economic and fiscal position of the UK for policy purposes
- Follows international statistical standards, to allow international comparisons
- Used as the basis for the government’s ‘fiscal mandate’ which sets targets for the debt (Public Sector Net Debt) and deficit (Public Sector Net Borrowing)

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<tbody>
<tr>
<td>Data is produced in ‘real-time’, immediately after the period it relates to</td>
<td>Broad measures – provides summary of performance but hard to interrogate underlying influences on performance.</td>
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<td>Allows international comparisons (useful for credit rating agencies, for example)</td>
<td>Not comprehensive: certain important financial transactions do not show up in the main measures used by government.</td>
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<td>Seeks to reflect the economic performance of assets and liabilities</td>
<td>For example, Public Sector Net Debt excludes future public sector pension commitments and student loans, which are significant elements of public expenditure and long term liabilities.</td>
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What it is:

- An accounts-based picture of the overall financial position of the UK public sector.
- Independently audited by the NAO, supported by the audit opinions of the public sector audit community (audit firms, local authority auditors, devolved auditors - Audit Scotland; NAO Walesa and NIAO; and the NAO
- Consolidates the audited accounts of around 6,000 organisations across the public sector.

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<td>More comprehensive than national statistics measures.</td>
<td>There is currently a 12 month lag in publishing the Whole</td>
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<td>Offers insight into long-term sustainability, not possible through national</td>
<td>Government Accounts, although the Treasury has made significant improvements</td>
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<td>statistics measures.</td>
<td>in reducing this from an original 20 month delay.</td>
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<td>Enables more informed decision-making, for example, on how government</td>
<td>The NAO's audit opinion highlights inconsistencies in the data, the</td>
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<td>uses property and financial assets and how it controls the build-up of</td>
<td>incomplete inventory of assets and that certain bodies continue to be</td>
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<td>liabilities</td>
<td>excluded even though accounting standards require their inclusion.</td>
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What it is:

- An analysis of the historical position reflected in the WGA balance sheet and government’s spending commitments projected out over 50 years.
- Provides a view on how external factors, principally demographics, but also labour productivity, inflation, interest rates and employment – impact upon the sustainability of the public finances.
- Draws conclusions on the likely impact of these factors on the proportion of national income that is absorbed by public expenditure

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<td>Links historical perspective in WGA with future commitments of government.</td>
<td>Long term projections are inherently uncertain.</td>
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<td>Tracks how changes the public finances need to adapt to changes in the</td>
<td>The results are sensitive to the long term position to fine movements in</td>
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<td>dynamics of the UK.</td>
<td>the spending framework.</td>
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<td>Provides a framework within which future policy should be decided on the</td>
<td>Depends on high quality information flowing through from the WGA and</td>
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<td>basis of its affordability.</td>
<td>Office of National Statistics.</td>
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