Government financial reporting review:

Best practice examples from 2021-22

Contents

Chapter 1- **Introduction**

Why this publication?

- In April 2019 HM Treasury published the Government Financial Reporting Review (GFRR).

- This included several examples of best practice in financial reporting taken from 2017-18 central government annual reports and accounts (ARAs). Since then, HM Treasury has published three best practice reports in annual financial reporting: 2018-19 best practice, 2019-20 best practice and 2020-21 best practice.

- HM Treasury is committed to continue supporting ongoing improvements in financial and non-financial reporting and this report outlines further examples of best practice, taken from 2021-22 PDF versions of ARAs.

- The expectation is that these examples will be considered by those entities preparing ARAs across government as a source of reference in making improvements to their own ARAs.

Further guidance

The best practice examples outlined in this report have been chosen because they display some or all of these characteristics, including: enhanced transparency and accountability, good accessibility and clear presentation of information (e.g. use of formatting/graphics) etc. to help the understanding of users of ARAs. These characteristics have been selected based on the findings of the GFRR.

If you would like to suggest further examples of best practice in government ARAs to be considered then please contact HM Treasury (Resource.Accounts@hmtreasury.gov.uk).

Transparency   **Accountability**   **Accessibility**   **Clear Presentation**

HM Treasury
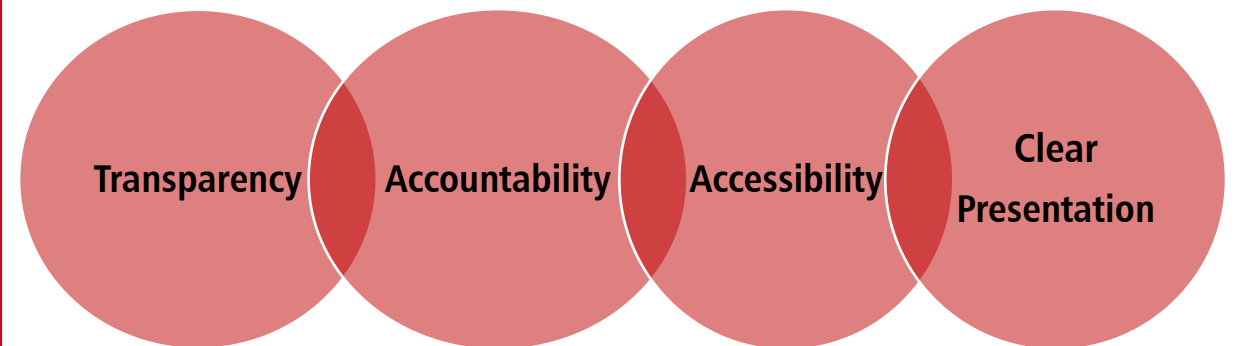
Chapter 1- **Introduction**

What should accounts preparers consider in narrative reporting?

Information should be presented in a way that **tells the story** of an organisation in a **fair, balanced and understandable** way.

It is important to provide **context**, using several years of trend data where possible.

The **layout and design choices** can influence how a reader understands a report, and the use of infographics and diagrams can be helpful in communicating important messages.

Clear and simple language makes reports easier for a wide range of users to understand.

It should be **straightforward and accessible** for users.

Why is narrative reporting important?

- The narrative elements of government financial reports are crucial for meeting the needs of users.

- Narrative provides context and essential information to explain financial outcomes and performance against objectives.

2022-23 ARAs challenges:

While there have been some improvements in timeliness for 2022-23 ARAs, reporting entities continue to face challenges in bringing their timelines for publishing accounts back on track.

HM Treasury

Best practice criteria

Transparency

- ✓ Provide open, balanced and honest reflections;
- ✓ Communicate complex information clearly;
- ✓ Identify and explain key risks and performance outcomes;
- ✓ Build context with the use of trend data.

Accessibility

- ✓ Reporting should be straightforward and accessible for users;
- ✓ Clear and simple language of key messages;
- ✓ Use of pictures, bolded text and alternating colours.

Accountability

- ✓ Meet key accountability requirements to Parliament;
- ✓ Tell the story of the organisation in a fair, balanced and understandable way;
- ✓ Ensure all disclosure requirements are met.

Clear presentation

- ✓ Use of infographics and diagrams to display important information;
- ✓ Use of concise and plain English;
- ✓ Use of clear formatting;
- ✓ Consistency of reporting methods.

HM Treasury

Chapter 2 – **Performance Reporting**

What should accounts preparers consider in performance reporting?

Performance reporting must be **fair, balanced and understandable.**

To **build trust**, it must be **transparent** including achievements as well as where objectives have not been met and why.

It should be **straightforward and accessible** for users.

? What is required within the performance report?
- The performance report is required to have **two sections**: a '**performance overview**' and a '**performance analysis**'.

- The **performance overview** is a short summary of the full story of an organisation and its performance over the period covered by the report.

- The **performance analysis** provides a detailed view.

Further information can be found on this within the 22-23 FReM (Government Financial Reporting Manual).

This chapter highlights some examples of best practice in performance reporting in departmental ARAs.

Performance Overview (1)

Reporting Issue

The performance section must include a statement of the purposes and activities of an organisation in a clear and concise manner. This is important as it allows the user to easily understand the entity's strategic objectives.

Example and why this is best practice
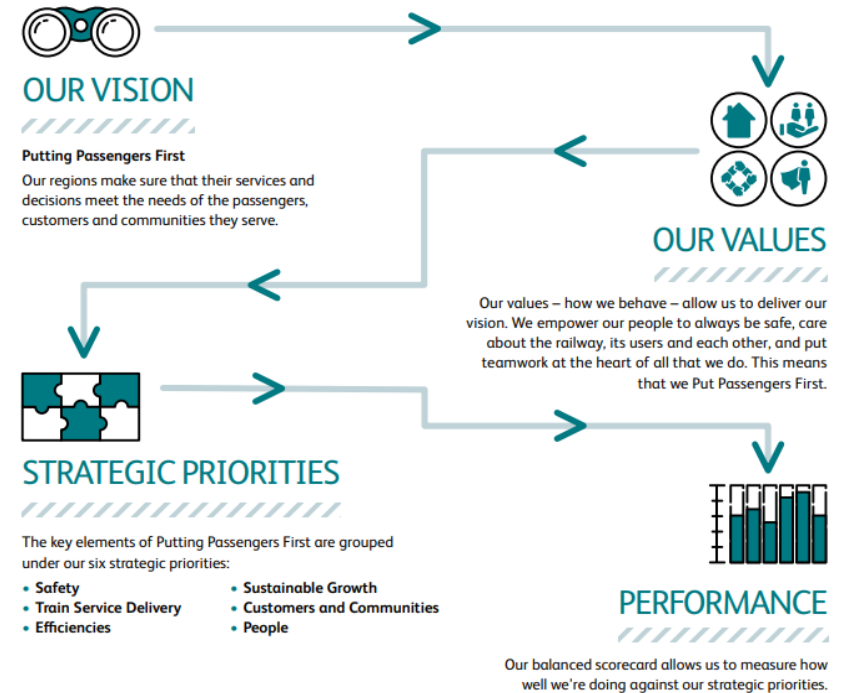
The example on this slide from Network Rail:

✓ Represents the entity's vision, values, and strategic priorities both visually and in written word, ensuring the accessibility of the information and maximising reader understandability;

✓ Includes a graphic concisely and clearly showing how Network Rail's story interlinks, helping the reader understand the story;

✓ Includes a footnote signposting to another relevant section of the report for more detail, helping to guide the reader and assisting the flow of the document.

Figure 1 – Network Rail

NETWORK RAIL'S STORY

Vision, values, strategy, performance.

Network Rail exists to get people and goods where they need to be and to support our country's economic prosperity. We do this by running a safe, reliable and efficient railway that serves our customers and communities. To be successful, we need to be a company that is on the side of passengers and freight users. This is why we developed our vision of Putting Passengers First.

OUR VISION

Putting Passengers First
Our regions make sure that their services and decisions meet the needs of the passengers, customers and communities they serve.

OUR VALUES

Our values – how we behave – allow us to deliver our vision. We empower our people to always be safe, care about the railway, its users and each other, and put teamwork at the heart of all that we do. This means that we Put Passengers First.

STRATEGIC PRIORITIES

The key elements of Putting Passengers First are grouped under our six strategic priorities:

- Safety
- Train Service Delivery
- Efficiencies
- Sustainable Growth
- Customers and Communities
- People

PERFORMANCE

Our balanced scorecard allows us to measure how well we're doing against our strategic priorities.

The linkages between our vision, values, strategic priorities and performance are explained more in About Network Rail on page 19.

HM Treasury

Performance Overview (2)

Example and why this is best practice

The example on this slide from [NHS 24](#):

- ✓ Has the strategic objectives in both written word and visual format, ensuring the accessibility of the information;

- ✓ The information is summarised but the graphic links back to the entity's values, helping the report tell NHS 24's story;

- ✓ The graphic shows how some objectives will feed into others, helping the user understand interconnectivity.
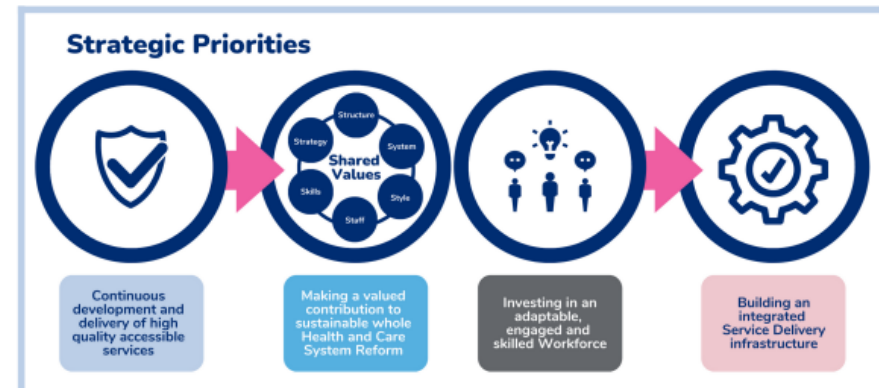
Figure 2 – NHS 24

NHS 24 STRATEGIC OBJECTIVES

In 2019, NHS 24 commenced a review of its 2017-2022 Strategy to confirm that its strategic direction was still valid for itself, the wider health and care service in Scotland and other public third and independent sector partners. NHS 24 developed revised strategic objectives alongside the ministerial priorities and current programmes of work. NHS 24 confirmed its two strategic objectives, as follows:

◆ Continuous development and delivery of high quality accessible, safe services

◆ Making a valued contribution to sustainable health and care system reform.

To support the delivery of these, NHS 24 also identified two enabling objectives:

◆ Adaptable, engaged, skilled workforce

◆ An integrated infrastructure to enable delivery of its services.

Strategic Priorities

Continuous development and delivery of high quality accessible services

Making a valued contribution to sustainable whole Health and Care System Reform

Investing in an adaptable, engaged and skilled Workforce

Building an integrated Service Delivery infrastructure

HM Treasury

Performance Highlights (1)

Reporting Issue

The [Government Financial Reporting Review](#) also emphasised the importance of reporting the annual performance highlights of an organisation. Providing an overview of performance over the course of a year increases the understandability and usability of the ARA.
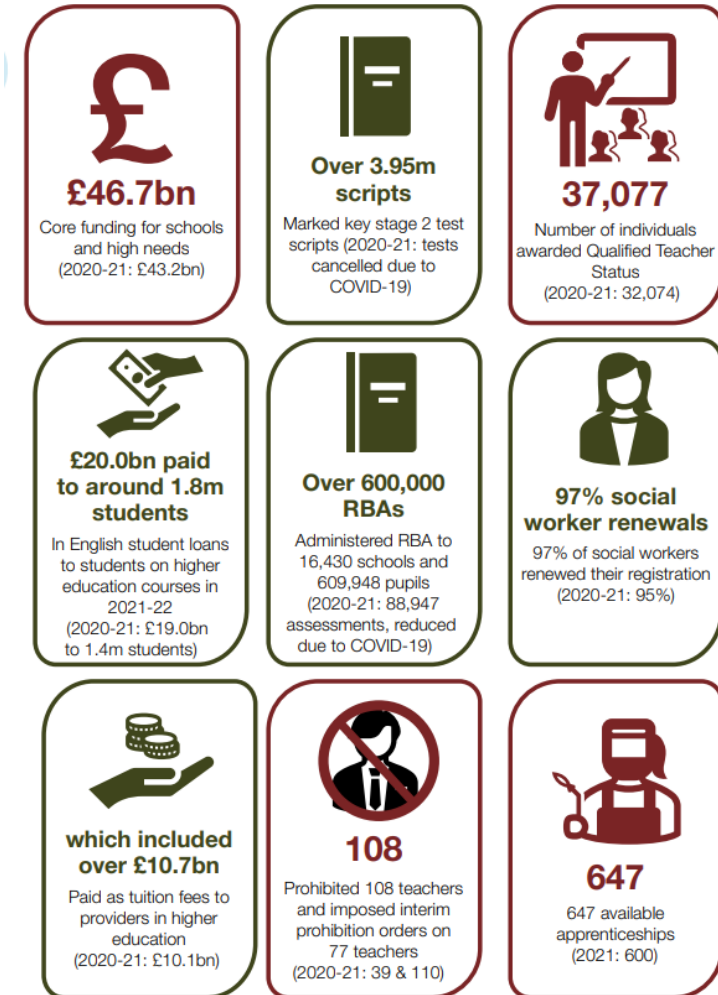
Example and why this is best practice

The example on this slide from the [Department for Education](#):

- ✓ Provides a clear overview of the Department's activities throughout the year, and breaks these down by specific work area using a colour theme that runs throughout the report;

- ✓ Has a clear focus on summary data, allowing users to easily understand performance outcomes;

- ✓ Uses a variety of graphics, making this section more visually appealing for users.

Figure 3 – Department for Education

Our performance

£46.7bn
Core funding for schools and high needs
(2020-21: £43.2bn)

Over 3.95m scripts
Marked key stage 2 test scripts (2020-21: tests cancelled due to COVID-19)

37,077
Number of individuals awarded Qualified Teacher Status
(2020-21: 32,074)

£20.0bn paid to around 1.8m students
In English student loans to students on higher education courses in 2021-22
(2020-21: £19.0bn to 1.4m students)

Over 600,000 RBAs
Administered RBA to 16,430 schools and 609,948 pupils
(2020-21: 88,947 assessments, reduced due to COVID-19)

97% social worker renewals
97% of social workers renewed their registration
(2020-21: 95%)

which included over £10.7bn
Paid as tuition fees to providers in higher education
(2020-21: £10.1bn)

108
Prohibited 108 teachers and imposed interim prohibition orders on 77 teachers
(2020-21: 39 & 110)

647
647 available apprenticeships
(2021: 600)

Performance Highlights (2)

Example and why this is best practice

The example on this slide from HS2 Ltd:

- ✓ Provides a clear overview of the department's activities throughout the year;

- ✓ Categorises the activities by the month they occurred, which increases understandability for users;

- ✓ Has a clear focus on summary information, allowing users to easily understand performance outcomes;

- ✓ Also contains a header to help the reader understand which section they are in and how far through the report they are.

Figure 4 – HS2 Ltd

High-level financial information (1)
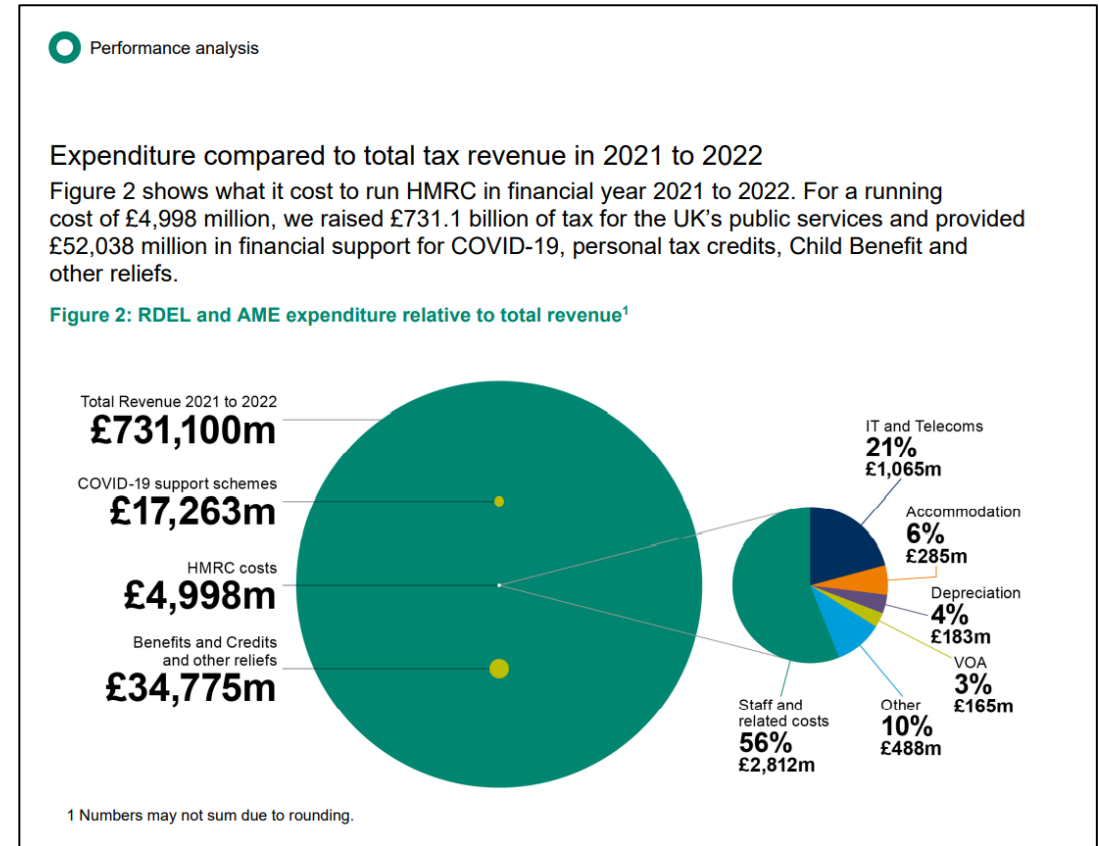
Reporting disclosure

Further best practice forms of reporting to include in a financial review are detail on the type of spend incurred over the year; for example, on employees, administration, equipment or buildings.
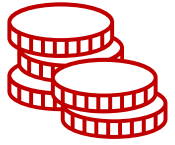
Example and why this is best practice

The example on this slide from HM Revenue and Customs:

- ✓ Provides an engaging diagram that makes it easy for the reader to visually digest visually the proportions of spend split between type, at a glance.

- ✓ Gives information in both % and £, so the reader can use whichever is easiest for them to understand.

- ✓ Provides a wider context on how much income HMRC generates as a proportion of its spend.

- ✓ Includes a narrative description of the graphic to make the information accessible.

Figure 5 – HM Revenue and Customs

○ Performance analysis

Expenditure compared to total tax revenue in 2021 to 2022
Figure 2 shows what it cost to run HMRC in financial year 2021 to 2022. For a running cost of £4,998 million, we raised £731.1 billion of tax for the UK's public services and provided £52,038 million in financial support for COVID-19, personal tax credits, Child Benefit and other reliefs.

Figure 2: RDEL and AME expenditure relative to total revenue[1]

Total Revenue 2021 to 2022 **£731,100m**

COVID-19 support schemes **£17,263m**

HMRC costs **£4,998m**

Benefits and Credits and other reliefs **£34,775m**

IT and Telecoms 21% £1,065m

Accommodation 6% £285m

Depreciation 4% £183m

VOA 3% £165m

Staff and related costs 56% £2,812m

Other 10% £488m

1 Numbers may not sum due to rounding.

HM Treasury

Figure 6 – Welsh Government

Example and why this is best practice

The example on this slide from the Welsh Government:

✓ Provides engaging diagrams that makes it easy for the reader to visually digest the proportions of spend split between type, at a glance;

✓ Gives information in both % and £, so the reader can use whichever is easiest for them to understand;

✓ Uses a variety of graphics, making this section more visually appealing for users;

✓ Uses a prior year comparator to build context for the user.

The Welsh Government's top 10 revenue budget expenditure areas

Other Direct NHS Allocations £234m 1%
Core NHS Allocations £8,441m 45%
Local Government General Revenue Funding £3,670m 19%
Health Education and Improvement Wales £260m 1%
Further Education Provision £642m 3%
HEFCW Programme Expenditure £263m 1%
Emergency Financial Assistance £533m 3%
Transport for Wales £303m 2%
Non Domestic Rates Rates Relief £331m 2%
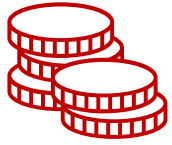Student Support Grants £344m 2%

WG Revenue Outturn: £18,867m Top 10 total: £15,021m 80% of the revenue budget

For comparison, the top 10 revenue budget expenditure areas last year (2020-21) were

Local Government General Revenue Funding £3,506m 18%
Core NHS Allocations £8,213m 41%
Emergency Financial Assistance £630m 3%
Further Education Provision £548m 3%
Business Development £1,653m 8%
Student Support Grants £380m 2%
Transport for Wales £370m 2%
Other Direct NHS Allocations £428m 2%
CAP Direct Payments £243m 1%
Non Domestic Rates Rates Relief £356m 2%

WG Revenue Outturn: £19,910m Top 10 total: £16,328m 82% of the revenue budget
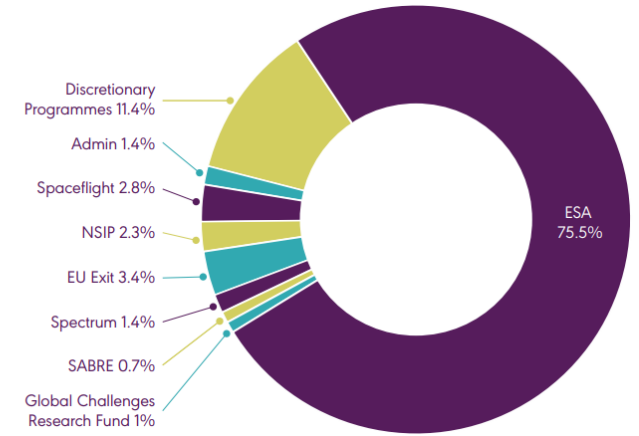
HM Treasury

Example and why this is best practice

The example on this slide from the UK Space Agency:

✓ Outlines high level financial information in an engaging way, which makes it easy for the reader to visually digest visually the proportions of spend split, at a glance;

✓ Includes colour schemes according to areas of expenditure;

✓ Includes a disclaimer and explanation, referencing specific pages and sections of the financial statements, to help the reader understand why they may not match the figures later in the accounts. This helps with the flow of the report.

Figure 7 – UK Space Agency

Ring-fences and discretionary spend

The Agency receives funding from BEIS. When spending restrictions are put against a particular budget line, this is referred to as a ring-fenced budget. In line with the HMT consolidated budgeting guidance, the Agency is not permitted to switch funding between ring-fences. The graph below details the 2021-22 outturn, split by the various ring-fences imposed by BEIS through our allocation. The remaining 11.1% of the UKSA allocation represents spend on discretionary programmes.

Discretionary Programmes 11.4%
Admin 1.4%
Spaceflight 2.8%
NSIP 2.3%
EU Exit 3.4%
Spectrum 1.4%
SABRE 0.7%
Global Challenges Research Fund 1%
ESA 75.5%

How we spent our 2021–22 DEL and EU Exit budget

£376.4m
£65.8m
£17.0m
£14.1m
£6.8m
£4.8m
£11.5m

- ESA
- EU Exit
- National Programmes
- Commercial Spaceflight
- International Partnership Programme
- National Space Innovation Programme
- Admin

The table above includes delivery costs; therefore, the figures are not directly comparable to those in the Note 4 to the Financial Statements, Total Expenditure, on page 87.

HM Treasury

Reporting Issue

The FReM mandates that the performance analysis section of ARAs must include a prior year comparator for data presented, as this adds context for users. Data for years earlier than the prior year should also be included where available and where this provides relevant context. There is an expectation that trend data will build up over time as it becomes available.

Example and why this is best practice

The example on this slide from the Ministry of Defence:

✓ Presents long term expenditure trends in the form of a clearly presented multiple-year bar chart. This is a key area of interest for the users of the accounts;

✓ Uses a colour scheme to clearly differentiate between different categories of spend, which allows the users of the accounts to easily see how overall expenditure is split across activities;

✓ Provides commentary on what the graph depicts.

Figure 8 – Ministry of Defence

Long Term Expenditure Trends

As confirmed in the funding settlement for Defence announced in November 2021, the Government remains firmly committed to NATO in spending at least 2% of our Gross Domestic Product on defence and security every year. The additional funding made available through the funding settlement is enabling the UK to invest in programmes that are most relevant to the threats we face now and in the future. The increase reported in 2021-22 is principally driven by the additional capital investments being made by the Department in that regard.

The graph below shows the long-term trend for Resource and Capital expenditure, excluding asset depreciation and impairment, from 2017–18 to 2021–22.

Analysis of Capital DEL and Cash Resource DEL by Type of Expenditure
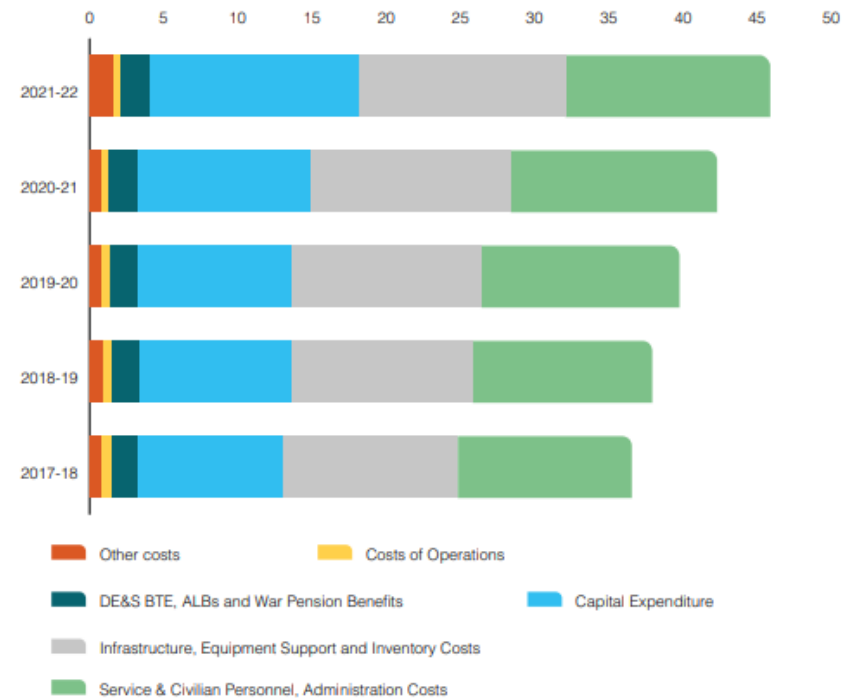
Expenditure (£Billion)

Trend data with commentary (2)

Example and why this is best practice

The example on this slide from the [Department for Environment, Food and Rural Affairs](#):

- ✓ Clearly presents multiple-year trend data in the form of a bar chart on a key area of interest for the users of the account;

- ✓ Includes a multi-year data line to show target for each year which allows the users of the account to understand difference between actual v target;

- ✓ Provides commentary relating to the graph to explain movement and variance to target, mentioning the impact of COVID-19, to build context for the users of the account.

Figure 9 – Department for Environment, food and Rural Affairs

Department for Environment, Food and Rural Affairs   Annual Report and Accounts 2021-22
Chapter 2– Performance Analysis

Indicator: Flood defence assets at required condition

During 2021-22, 91.8 per cent of flood defence assets were brought to required condition against the target of 98 per cent. Increased asset damage occurred during multiple significant flood events in early 2021, and COVID-19 restrictions impacted on delivery work. Errors in transitioning to a new system for recording assets has also contributed to the below target percentage.
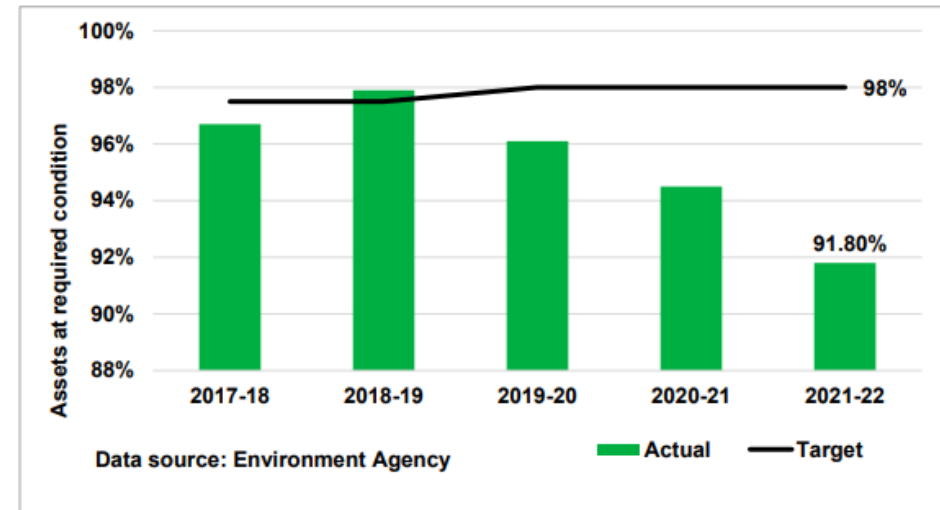

Figure 8: Flood and coastal risk management assets at or above the target condition

HM Treasury

Trend data with commentary (3)
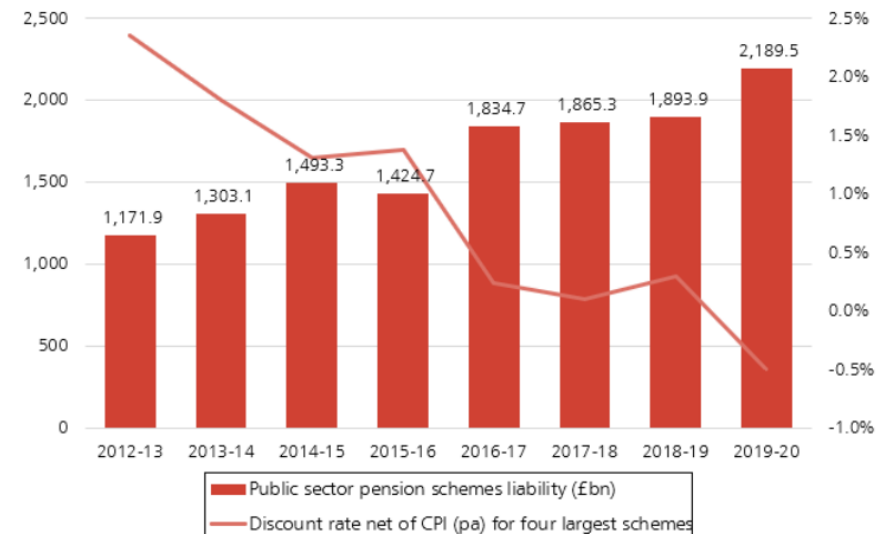
Example and why this is best practice

The example on this slide from the [Whole of Government Accounts](#):

- ✓ Clearly presents two sets of multiple-year trend data separately within one graph;

- ✓ Includes a reference figure and the commentary clearly indicates which chart is discussed using the reference number;

- ✓ Provides commentary relating to the graph to explain the interactivity of the discount rates and pension scheme liabilities data sets.

Figure 10 – Whole of Government Accounts

1.166   Chart 1.HH illustrates how the trend in this net discount rate compares with the trend in the public sector pension scheme liability over recent years. In 2019-20, there was a decrease to the central government net discount rate, from 0.3% to (0.5)%. This alone would be expected to cause a loss on revaluation and increase the pension liability by around £350 billion. The actual loss on revaluation from changes in assumptions of £220.6 billion also includes the impact of other actuarial assumptions, as summarised below.

Chart 1.HH: Discount rate trend

Balanced reporting (1)

Reporting Issue

Organisations are expected to report the status of progress against their strategic objectives in a fair, balanced and understandable way.

Example and why this is best practice

The example on this slide from the Ministry of Justice:

✓ Clearly states each priority with supporting trend data in the form of a line graph ;

✓ Includes helpful RAG system to visually show status of each priority at the end of the financial year;

✓ Uses icons to visually demonstrate movement from prior year, with a key code to clearly show users of the accounts the progress of each priority;

✓ Gives a balanced and honest reflection of each priority.

Figure 11 – Ministry of Justice

Key to metrics

Value change from previous year: Increasing ⬆   decreasing ⬇   no change ➡

Progress on previous year: Green – improving 🟢   Amber – marginal or no change 🟡   Red – worsening 🔴
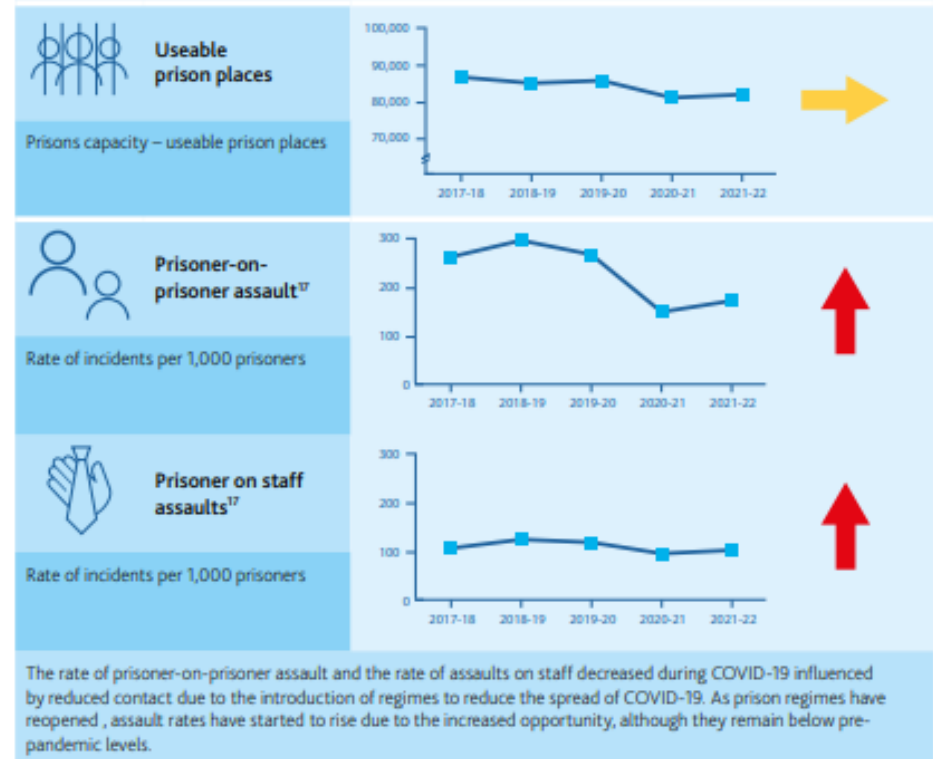
Our performance metrics

Useable prison places — Prisons capacity – useable prison places

Prisoner-on-prisoner assault[17] — Rate of incidents per 1,000 prisoners

Prisoner on staff assaults[17] — Rate of incidents per 1,000 prisoners

The rate of prisoner-on-prisoner assault and the rate of assaults on staff decreased during COVID-19 influenced by reduced contact due to the introduction of regimes to reduce the spread of COVID-19. As prison regimes have reopened , assault rates have started to rise due to the increased opportunity, although they remain below pre-pandemic levels.

Balanced reporting (2)

Example and why this is best practice

The example on this slide from the Department for International Trade:

✓ Clearly states each priority with detailed supporting performance measure and statistics for the year;

✓ Uses bold text to highlight significant statistics with comparatives from the prior year;

✓ Uses icons to visually demonstrate how each priority links to the UN Sustainable Development Goals;

✓ Gives a balanced and honest reflection of each priority.

Figure 12 – Department for International Trade

PRIORITY OUTCOMES

	Key performance measures and statistics (2021-22 unless stated)	Link to the UN Sustainable Development Goals
Secure world-class free trade agreements and reduce market access barriers, ensuring that consumers and businesses can benefit from both.	> Value of total trade in 2021 with countries for which a trade agreement has been secured as at 31 March 2022: **£808bn** > Value of total trade in 2021 with countries for which a trade agreement has been secured as at 31 March 2022, as a percentage of total UK trade: **63.2%** > Number of Market Access Barriers reported on the Digital Market Access Service: **800** (an increase of 9.1% or 67 barriers from 2020-21) > Number of Market Access Barriers on the Digital Market Access Service fully resolved: **146** (a decrease of 6.4% or 10 barriers from 2020-21)	[8] [10]
Deliver economic growth to all the nations and regions of the UK through attracting and retaining inward investment.	> Inward Foreign Direct Investment (FDI) Stock in 2020: **£1.93tn** (17.6% increase from 2019) > Number of DIT supported FDI projects: **1,174** (3.8% increase from 2020-21) > Gross Value Added (GVA) of DIT supported FDI projects: **£7,034m** (81.5% increase from 2020-21) > New jobs created or safeguarded from DIT supported FDI projects: **79,571** (24.4% increase from 2020-21 – see p.47 for regional breakdown) > Value of venture capital supported: **£960m** (24.2% increase from 2020-21) > Value of large capital supported: **£4,683m** (22.6% increase from 2020-21)	[8] [9]

Reporting against strategic objectives (1)

Reporting Issue

Annual reports and accounts should report progress against their strategic objectives. It is important that reporting is fair and balanced, showing instances where performance has been below expectation and goals set.

Example and why this is best practice

The example on this slide from the HMRC:

✓ Presents a clear and detailed summary of each commitment and what has been delivered for the financial year;

✓ Uses a helpful RAG system to visually show status of each commitment;

✓ Includes a well laid out table, which allows the users of the accounts to easily understand the commitment and the progress of the department.

Figure 13 – HM Revenue & Customs

### Our commitments in 2021 to 2022

In our Outcome Delivery Plan for 2021 to 2022, we made 8 commitments as part of our core work to collect the right tax and pay out the right financial support.

Status at the end of 2021 to 2022					
On track or complete	✔	Risk to delivery	⚠	Not on track	✖

Commitment	What we delivered	Status
Budget 2020, avoidance, evasion and non-compliance	We are on track to deliver Budget 20 measures to tackle tax avoidance, evasion and other forms of non-compliance that will raise an additional £4.7 billion between 2020-21 and 2024-25	✔
Budget 2021 compliance measures	We are delivering a range of Budget 2021 measures to tackle non-compliance and set up a Taxpayer Protection Taskforce to combat fraud in the COVID-19 support schemes (see pages 35-36).	✔
Budget 2021 policy measures	In 2021 to 2022 we legislated for, and implemented, Budget 2021 policy measures including: • a new 130% first-year capital allowance for qualifying plant and machinery assets and a 50% first-year allowance for qualifying special rate assets • a temporary extension to the loss carry back rules for trading losses of both corporate and unincorporated businesses • red diesel changes introduced through Finance Bill 2021 to restrict the entitlement to use red diesel and rebated biofuels from April 2022 for qualifying purposes	✔
National Insurance Contributions (NICs) Bill 2021	We supported ministers to successfully legislate for the 2019 manifesto commitments on Freeports NICs relief (which can be claimed if you have business premises in a Freeport) and an employer NICs veterans' holiday (providing a zero-rate of secondary Class 1 NICs for employers who hire veterans on a civilian contract after leaving the regular armed forces).	✔
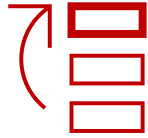
HM Treasury

Example and why this is best practice

The example on this slide from Defence, Equipment and Support:

✓ Breaks each strategic objective down into KPIs, where progress has been measured for the financial year;

✓ Uses colour, larger font and also a metric showing whether spend is over or under budget;

✓ Includes narrative to support each KPI, so users of the accounts can understand the performance metric for each strategic objective;

✓ Gives a balanced and honest reflection, which provides trust and increases the value of the report to the user.

Figure 14 – Defence, Equipment and Support

KPI 1 – FINANCE

DE&S Finance KPIs measure how we live within the allocated in-year Operating Expenditure (KPI 1.1) and EPP and Support Plan budgetary controls (KPI 1.2). KPI 1.2 tracks in-year forecast outturn within an agreed tolerance of the budget by each command-facing area and KPI 1.3 measures forecast stability by command over a ten-year period. We also measure the delivery of efficiencies, both in-year (KPI 1.4) and across a ten-year period (KPI 1.5), tracked against targets agreed at the start of the FY.

KPI 1.1 OPERATING EXPENDITURE BUDGETARY CONTROL

DE&S	Metric
-£33M	Green ≤ budget Red > budget

Table above includes £4 million of Infrastructure Plan savings.

For 2021-22 DE&S continued to live within its means in relation to its Operating Expenditure budget (includes Infrastructure Plan), with expenditure outturning at £1,181 million, £33 million under budget. However, our underspend was higher than we would have wished, primarily because of the challenging labour market which had an impact on expected workforce numbers and led to numerous forecast adjustments through the year.

KPI 1.2 IN-YEAR EQUIPMENT PLAN BUDGETARY CONTROL

Navy	Army	Air	Metric
-£12M -0.44%	**-£285M** -10.71%	**-£57M** -1.19%	Overspend: Red Underspend: Green <0% ≥-1.5% Amber <-1.5% ≥-2% Red <-2%
UK Strategic Command	Strategic Programmes		
-£10M -1.06%	**-£11M** -0.91%		

The overall Equipment Plan outturn was £11,885 million against a budget of £12,263 million, 3.1% under budget, which includes adjustments for foreign exchange movement and deliberate changes enacted by our clients. The Army underspend was materially driven by ongoing noise and vibration issues with Ajax which saw a reduction of £210 million in its forecast due to the reprofiling of the General Dynamics UK production schedule.

Future plans

Reporting Issue

Organisations should produce forward-looking information as it increases the value of the narrative surrounding the current year's performance, including the risks it faces, how this may affect future plans and performance.

Example and why this is best practice

The example on this slide from the Department for Transport:

✓ Sets out the planned Resource and Capital spend over the current Spending Review (SR) period which is expected to run to 2024-25.

✓ Provides a clear graph that sets out the split between Resource and Capital expenditure and expected spend over the current, previous and future SR periods;

✓ Includes historical information to set context and offer comparatives for users for their assessment.
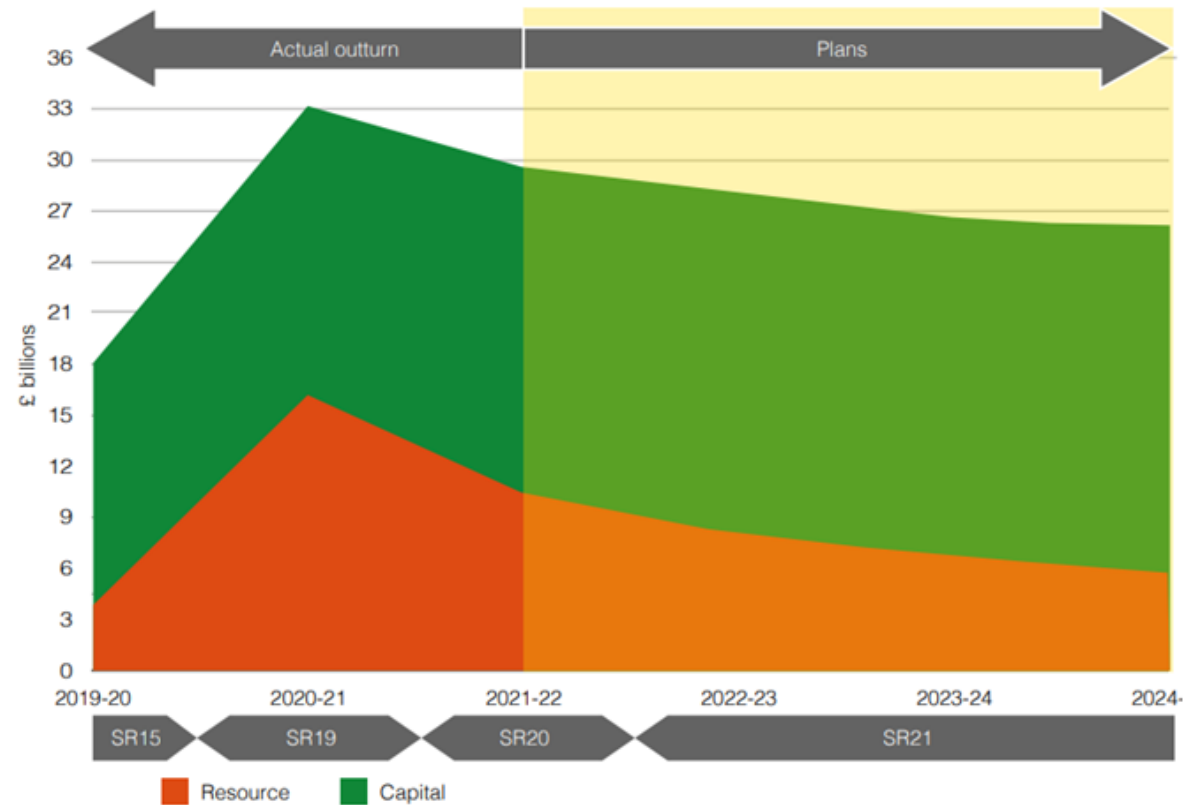
Figure 15 – Department for Transport

Figure 10: Total net expenditure (exc. Depreciation) split between capital and resource net expenditure

HM Treasury

Sustainability reporting (1)

Reporting Issue

As emissions reporting develops, and entities adopt new metrics and targets, users need to be provided with information to understand the changes.

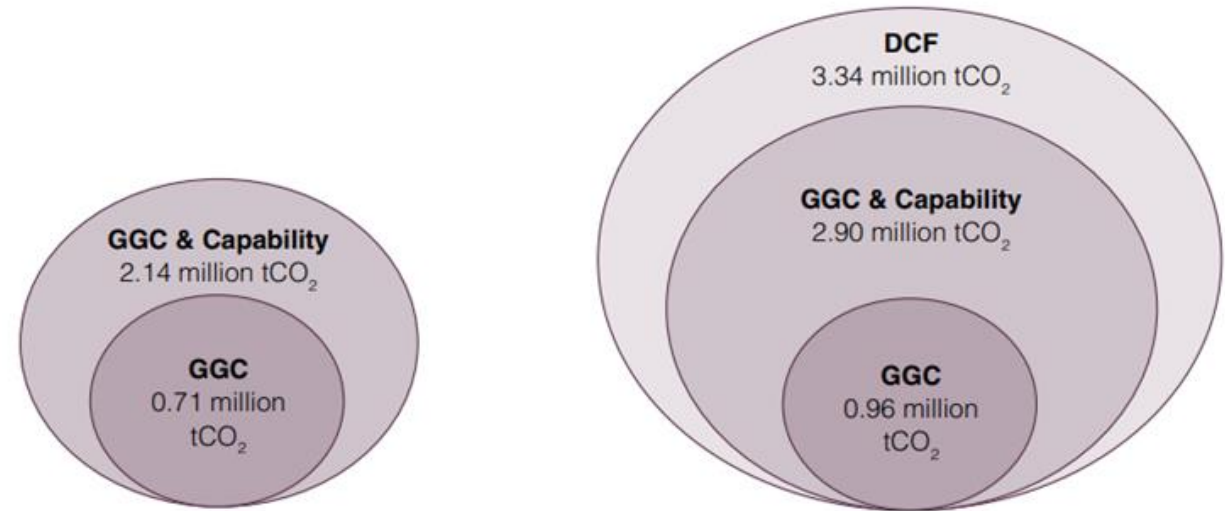## Example and why this is best practice

The example on this slide from the Ministry of Defence:

✓ Uses a geometric graphic to compare the impact of changing reporting frameworks across successive years;

✓ Includes consistent comparative figures with appropriate units to track changes.

Figure 16 – Ministry of Defence

Illustration showing expansion of carbon emission reporting

2020-21 MOD Carbon Emission reporting

2021-22 MOD Carbon Emission reporting

DCF
3.34 million tCO_2

GGC & Capability
2.90 million tCO_2

GGC & Capability
2.14 million tCO_2

GGC
0.71 million tCO_2

GGC
0.96 million tCO_2

Prior to 2021-22, Defence carbon emission reporting only covered GGC and Military Capability Fuels only.

From 2021-22 onward, Defence in addition to reporting its emissions covered by the GGCs and Capabilities will also be reporting its Defence Carbon Footprint (DCF)

HM Treasury

Sustainability reporting (2) - TCFD
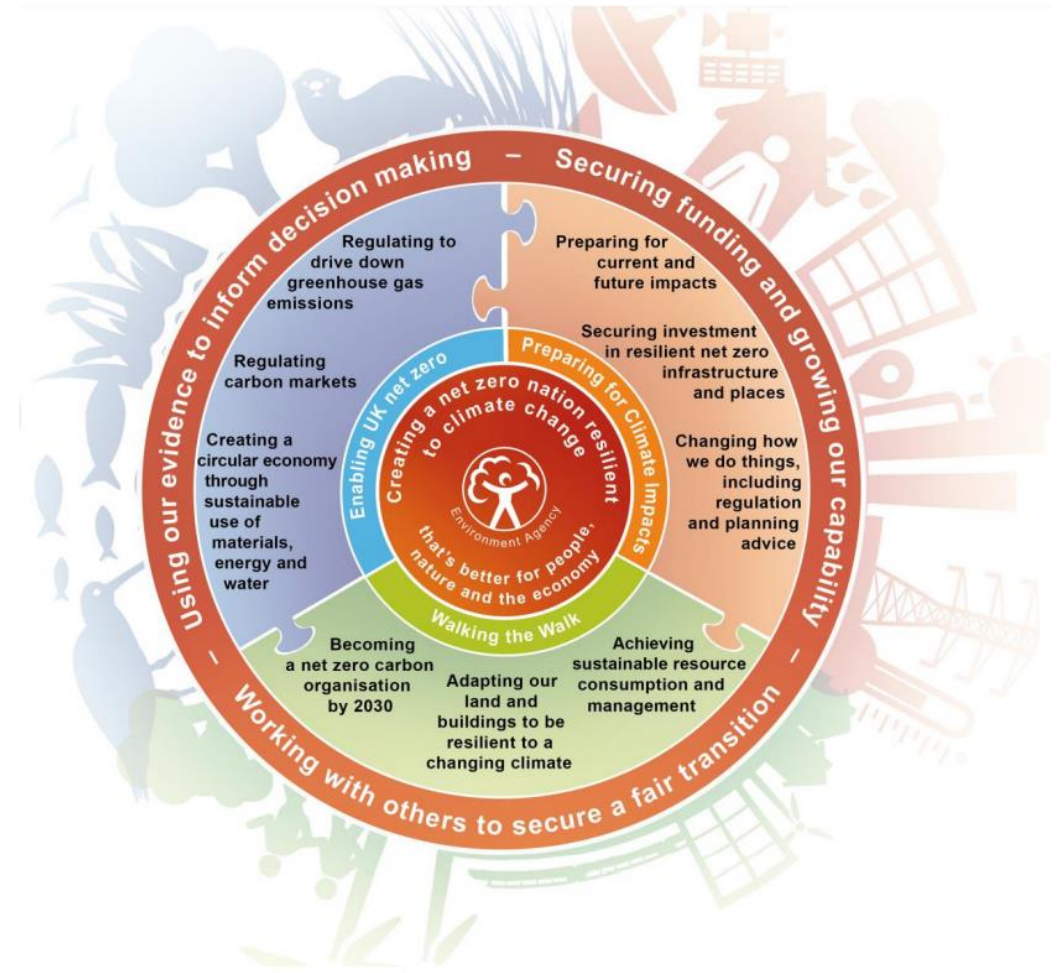
Reporting Issue

For 2021-22, the [Sustainability Reporting Guidance](#) included voluntary guidance on the Task force on Climate-related Financial Disclosure (TCFD) recommendations. HM Treasury has announced plans to adopt the TCFD recommendations in central government annual reports.

Example and why this is best practice

The example on this slide from the [Environment Agency](#), which has voluntarily adopted TCFD recommendations:

✓ Clearly sets out their Climate Ambition in an eye-catching graphic;

✓ Includes details on TCFD recommended disclosures and sets out management's strategy for climate-related risks.

Figure 17 - Environment Agency

HM Treasury

Sustainability reporting (3) - TCFD

Reporting Issue

For 2021-22, the Sustainability Reporting Guidance included voluntary guidance on the Task force on Climate-related Financial Disclosure (TCFD) recommendations. HM Treasury has announced plans to adopt the TCFD recommendations in central government annual reports.

Example and why this is best practice

The example on this slide from UK Export Finance, which has voluntarily adopted TCFD recommendations:

✓ Provides users information on government structures to identify and manage climate-related risks and opportunities;

✓ Clearly lays out the reporting lines and responsibility of various committees and governing boards.

Figure 18 – UK Export Finance
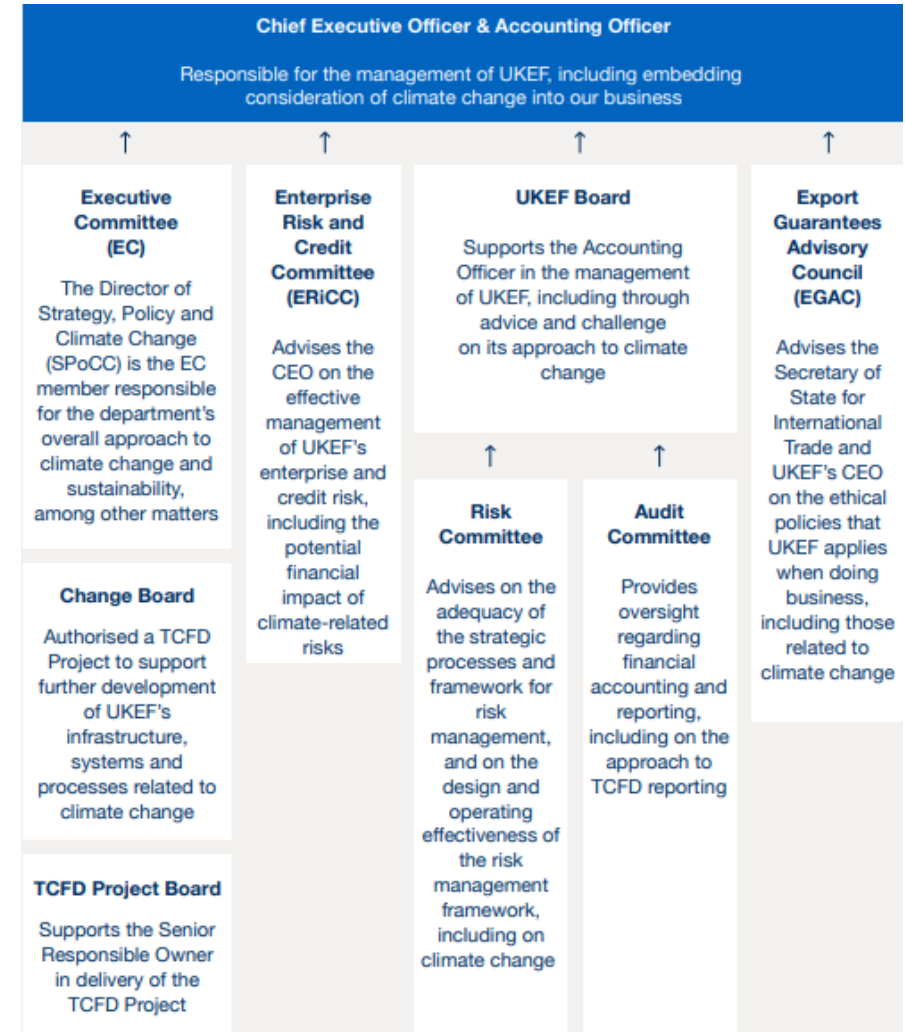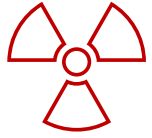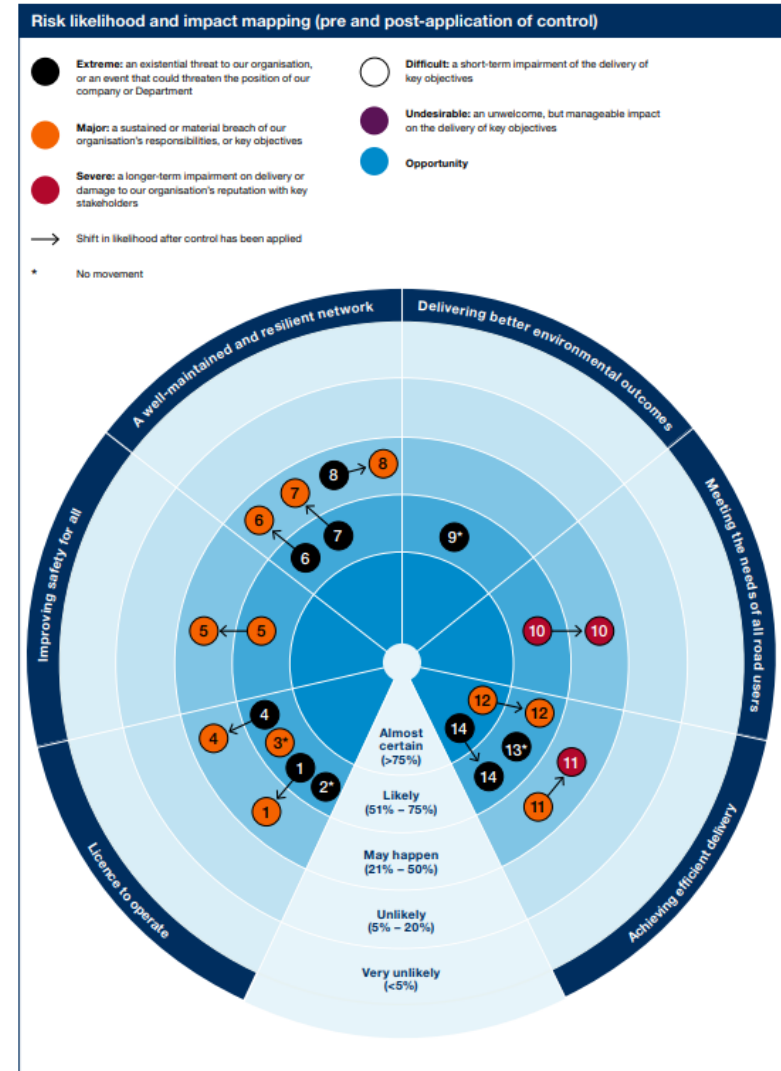
Risk reporting (1)

Reporting Issue

Risk reporting appears in both the performance and accountability reports in ARAs. The performance report should provide information on the risk profile of the organisation – the risks it faces, how risks have affected the organisation in achieving its objectives, how they have been mitigated and managed throughout the period and how this may affect future plans and performance.
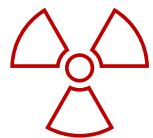
Example and why this is best practice

The example on this slide from National Highways:

✓ Maps risks across the strategic objectives of the entity;

✓ Clearly maps the likelihood of each of the risks;

✓ Uses colour coding for the impact of risk;

✓ Graphically shows the change in likelihood of the risk after the control has been applied.

Figure 19 – National Highways

Risk reporting (2)

Example and why this is best practice

The example on this slide from the [Ministry of Justice](#):

✓ Shows the risk assessment in a tabular format;

✓ Shows how risks have developed from the previous year in a way that helps users understand what the trends mean to the entity;

✓ Cross-references to the strategic objectives, priority outcomes and enablers of the entity for further information, improving the accessibility of the report for users.

Figure 20 – Ministry of Justice

Principal risk summary

Principal risk area	Outcome /enabler	Trend this year	Comment on trend	Reference to performance analysis
Operational delivery: reducing the levels of outstanding cases in the criminal and family courts, and ensuring there is always sufficient prison capacity to fulfil the sentences of the courts	① ② ③	◄►	Operational delivery risks have remained largely static throughout 2021 despite additional waves of COVID-19. From September 2021 to April 2022, the number of cases completed in the Crown Court was greater than the number of cases received. We have provided additional prison places in 2021-22 but expect the prison population to rise significantly in the 2020s.	Page 24 Page 28,29 Page 33
People and capability: ensuring the wellbeing of our people, leading the way in developing innovative future ways of working, developing the right capacity and capability to deal with future challenges	① ② ③ ④ ⑤ ⑥	▲	Wellbeing risks related to COVID 19 improved throughout the year as the impact of the pandemic eased. Other people risks have consistently risen and we are now seeing significant recruitment and retention issues across the MoJ in executive agencies, functions and our policy areas as a result of changes in the labour market.	Page 24 Page 30 Page 33 Page 38
Technical debt and cyber security: reducing technical debt and reducing the likelihood of a cyber security attack, keeping our information secure and enabling compliance with GDPR and other legislation	① ② ③ ⑤	◄►	A revised Digital and Technology Strategy was put in place in 2021-22 and additional investment made to reduce our exposure to business critical system failure and cyber-attack. The scale of our technical debt remains significant and we are now seeing a heightened risk of cyber threat due to the Russian invasion of Ukraine.	Page 24 Page 29 Page 34 Page 38

Topical issues

Reporting issue

Performance reports should provide an overview of the risks an entity faces and how they have changed from the proceeding period. The impact of a particular topical issue on an entity's risk profile may be of particular interest to Parliament because of its nature.

Example and why this is best practice

The example on this slide from [Network Rail](#):

✓ Shows the impact of the Ukraine conflict on their risk profile, highlighting the key areas being affected, risks being reviewed and how the organisation is responding to it;

✓ Disaggregates the risks by theme, e.g. on their supply chain and security, building transparency for users.

Figure 21 – Network Rail

Diagram 3 – Impact of Ukraine conflict on our risk profile

Risk Event	Key areas affecting Network Rail	L0 Risks reviewed in light of conflict	Some examples of how we are responding
Russia - Ukraine conflict	Commodity price increase	Disruption to supply	• Monitoring of key supplier indicators • Developing contingency plans where supply is thought to be at increased risk • Stock management • A national risk and issue triage forum, leading to consideration of national solutions where required
	Resource availability		
	Logistics disruption		
	Geopolitical instability	Sustainable industry finances	• Increased daily monitoring of Ukraine/Russian cyber-related threats • Contracted an incident response retained service for emergency support to aid in the event of a cyber attack • Assessed exposure to and use of software or applications developed in Russia • Enhanced logical security for technology used by suppliers working in Ukraine • Reviewed cyber incident types associated with the conflict to assess response plans*
	Sanctions and market access limitations		
	Cyber attacks	Cyber risk	

*List of responses is not exhaustive

HM Treasury
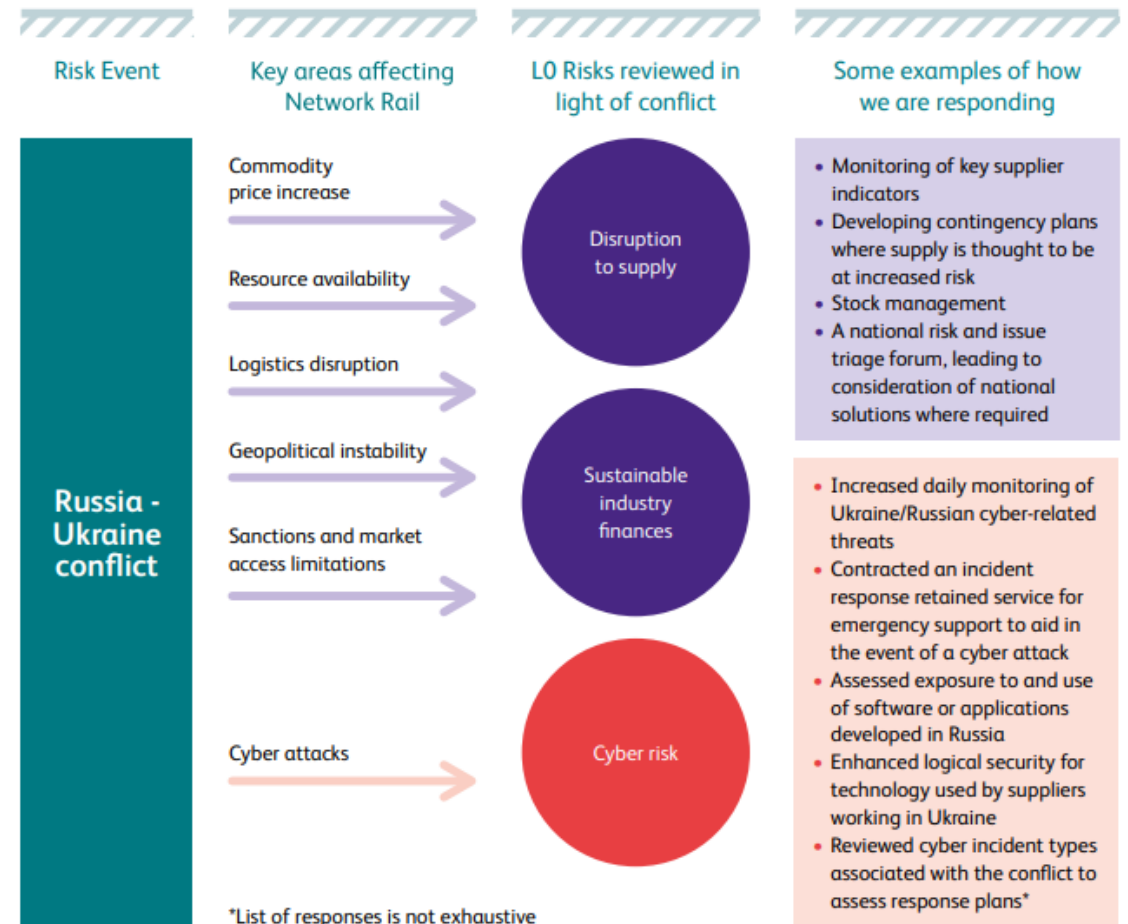
Chapter 3 – **Accountability Reporting**

What should accounts preparers consider in Accountability Reporting?

Meet key accountability requirements to Parliament, as the **primary user** of central government annual reports and accounts.

Disclosures should be presented in a way that **meets the needs of users.**

Ensure all disclosure requirements are met within the report.

? What is required within the Accountability Report?
- The accountability report is made up of three sections: A **Corporate Governance Report**; a **Remuneration and Staff Report**, and a **Parliamentary Accountability and Audit Report.**

- Entities should provide an overview of these sections and explain how they contribute to an entity's accountability.

Further information can be found on this within the [22-23 FReM](#) (Government Financial Reporting Manual).

This chapter highlights some examples of best practice in accountability reporting in departmental ARAs.
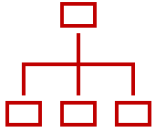
Reporting Issue

All reporting entities covered by the requirements of the FReM shall report on the review of the risk management and internal control system and the main features of the entity's risk management and internal control system in preparing the governance statement.
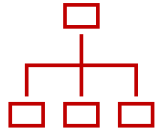
Example and why this is best practice

The example on this slide from HM Treasury:

✓ Includes a well-structured diagram representing the Department's system of corporate governance, management and internal control;

✓ Includes a colour key showing which committees relate to governance and which to assurance;

✓ Shows reporting and accountability lines between committees and boards;

✓ Sets out the structure and purpose of each committee.

Figure 22 – HM Treasury
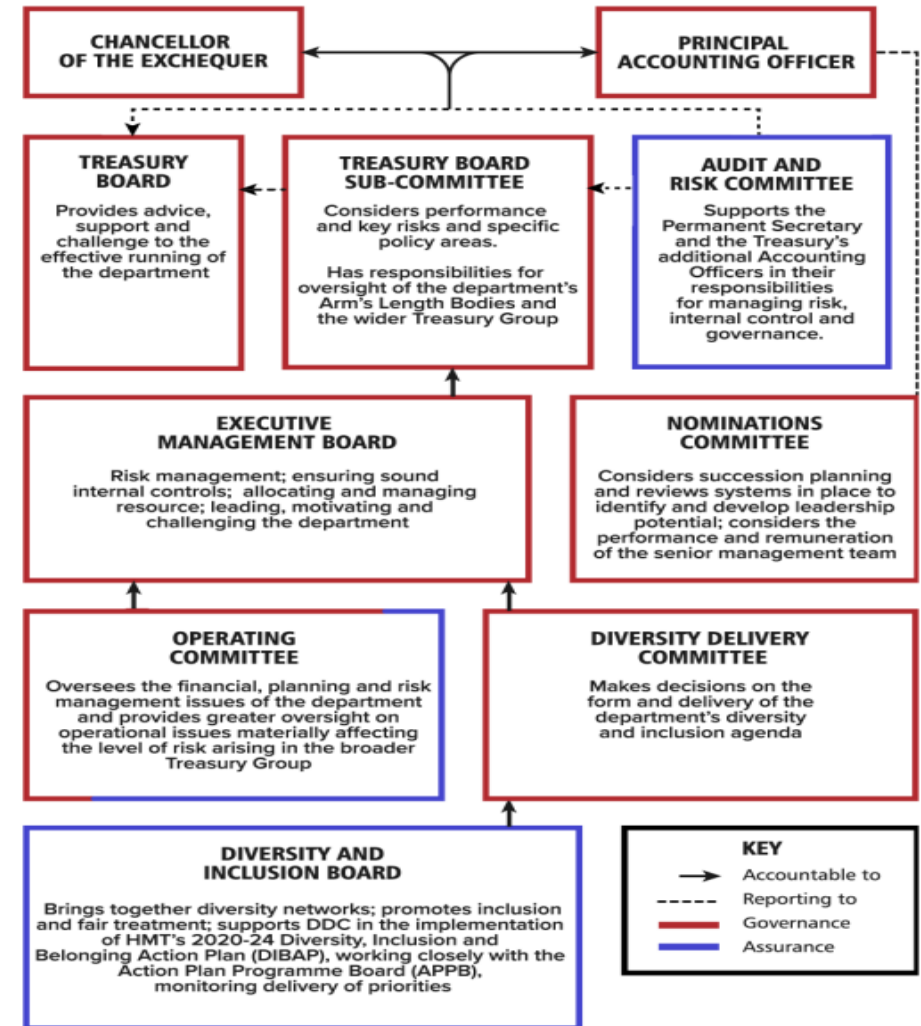
Governance and risk management (2)

Example and why this is best practice

The example on this slide from the Ministry of Justice:

✓ Discloses the purpose of the board, the number of meetings held and activities undertaken by the board in one place;

✓ Includes a mixture of narratives and graphics to provide details of this particular board;

✓ Uses infographics to show the composition of the board by position and gender.

Delivery Board

Chair:	Second Permanent Secretary and lead non-executive board member
Meetings in 2021-22:	7

Purpose:

The Delivery Board provides assurance to me in my role as the Principal Accounting Officer and to the Departmental Board that the strategic outcomes and commitments defined in the Outcome Delivery Plan and Government Major Projects Portfolio are on track to be delivered. It escalates matters for consideration to the Departmental Board via the Executive Committee.

Meeting composition — 8 members:

By position:

2	6

■ Non-executive directors
■ Executive directors

By gender:

4	4

■ Female ■ Male

Activities in the year under review included:

- oversight and scrutiny of the department's major projects and programmes, ensuring that plans are well evidenced and strategic benefits are on track to be delivered
- challenge and scrutiny of the robustness of the plans and processes for delivery and the adequacy of their management
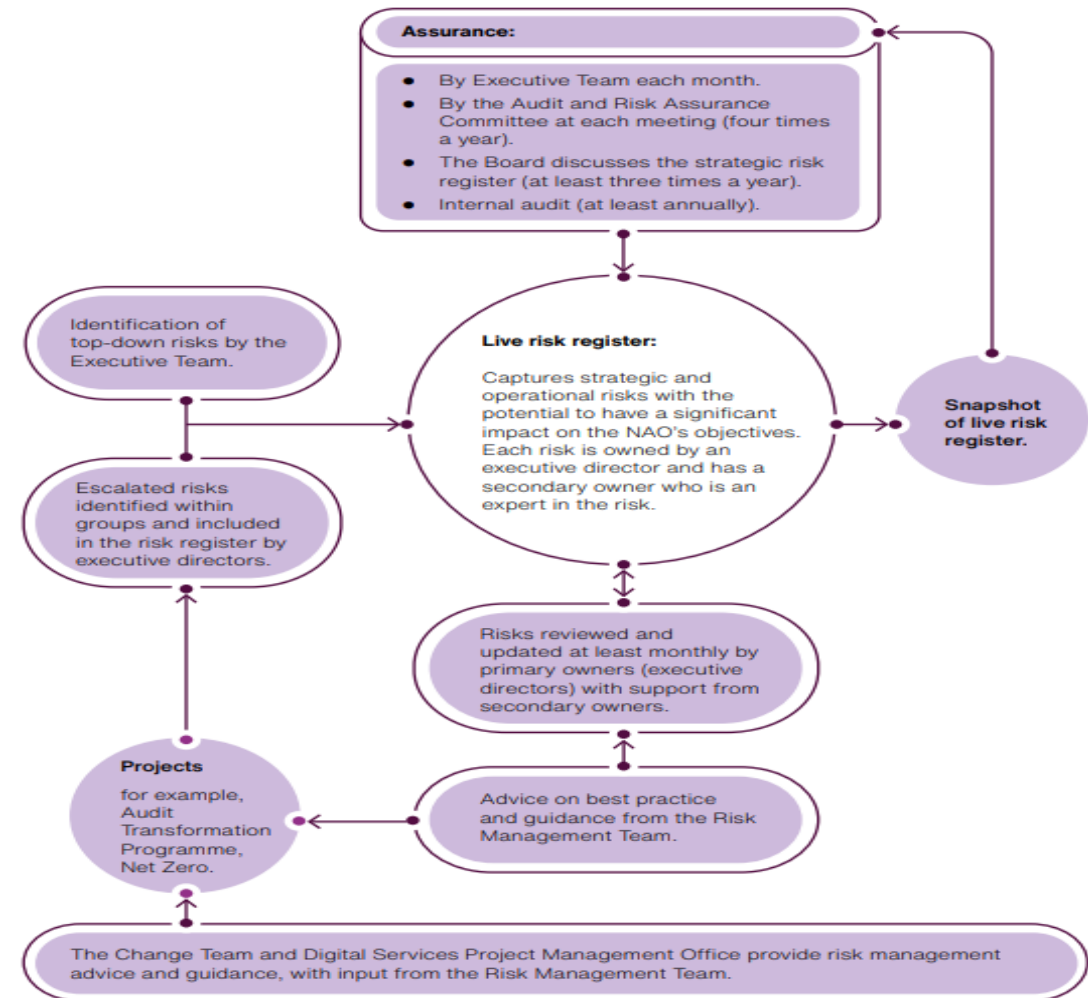
HM Treasury
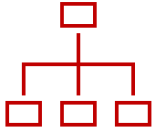
Governance and risk management (3)

Example and why this is best practice
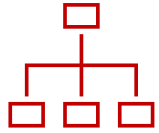
The example on this slide from the National Audit Office:

✓ Provides a clear depiction of the entity's review and escalation process of risk in one easy-to-understand diagram.

Figure 24 – The National Audit Office

**Our approach to risk management helps us to identify, assess, treat and monitor the NAO's risks**

Assurance:
- By Executive Team each month.
- By the Audit and Risk Assurance Committee at each meeting (four times a year).
- The Board discusses the strategic risk register (at least three times a year).
- Internal audit (at least annually).

Identification of top-down risks by the Executive Team.

Live risk register:

Captures strategic and operational risks with the potential to have a significant impact on the NAO's objectives. Each risk is owned by an executive director and has a secondary owner who is an expert in the risk.

Snapshot of live risk register.

Escalated risks identified within groups and included in the risk register by executive directors.

Risks reviewed and updated at least monthly by primary owners (executive directors) with support from secondary owners.

Projects

for example, Audit Transformation Programme, Net Zero.

Advice on best practice and guidance from the Risk Management Team.

The Change Team and Digital Services Project Management Office provide risk management advice and guidance, with input from the Risk Management Team.

HM Treasury

Governance and risk management (4)

Example and why this is best practice

The example on this slide from the Nuclear Decommissioning Authority:

- ✓ Provides a clear representation of the organisation's approach to risk management through a levelled graphic, allowing users to easily understand responsibilities of the major risk areas;

- ✓ Includes clear narrative on the roles and responsibilities of each body within its risk management model.

Figure 25 – The Nuclear Decommissioning Authority
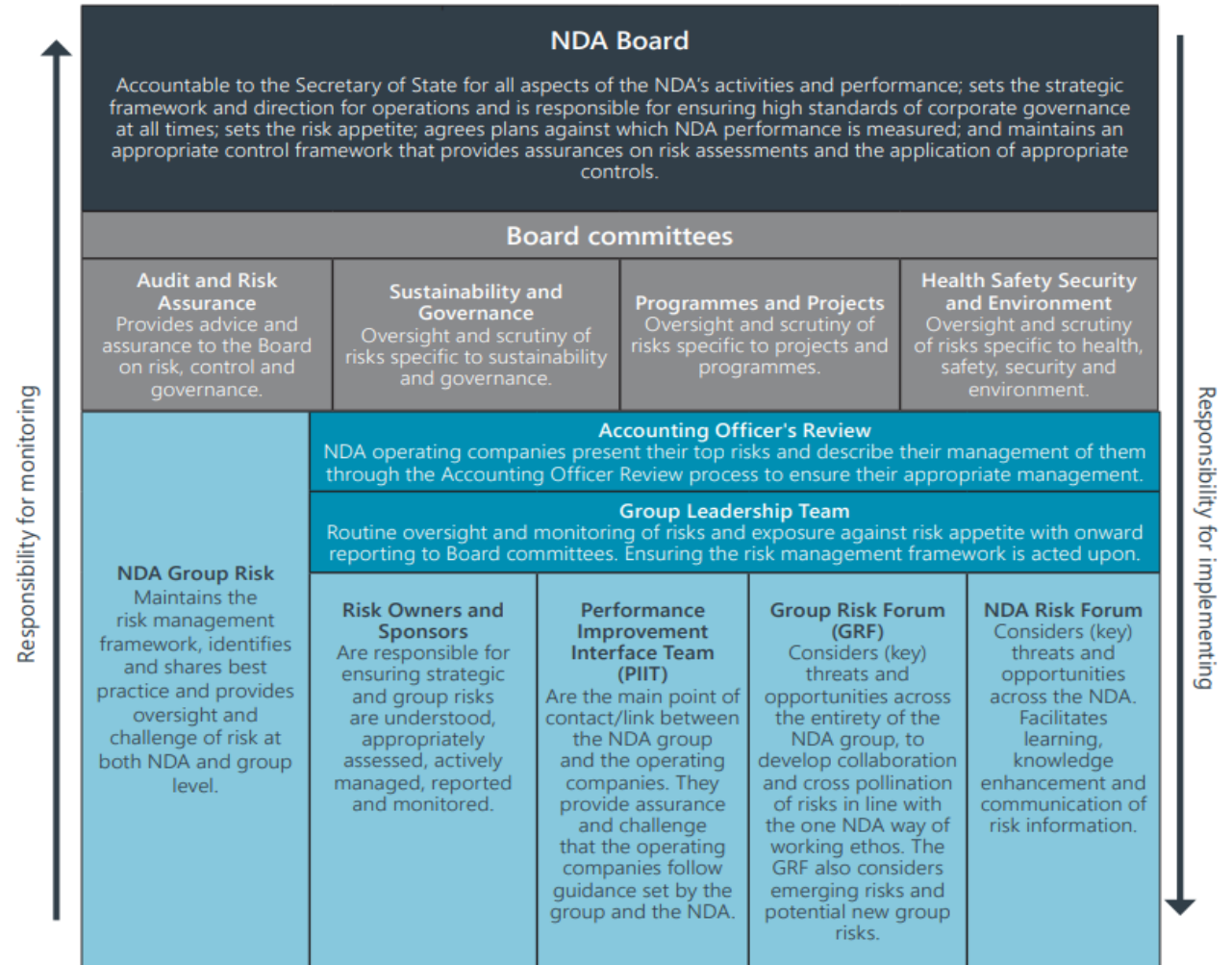
Civil Service People Survey (1)

Reporting Issue

For those entities who contribute to it, staff engagement percentage scores must be disclosed from the latest Civil Service People Survey. Information should be provided with sufficient explanation and context, including trend data where appropriate.

Example and why this is best practice

The example on this slide from the UK Space Agency:

✓ Builds transparency for users by breaking down themes of the survey in a table, including prior year comparative data

✓ Also uses the overall civil service scores as a comparator to build context;

✓ Explains in simple language the results of the people survey and what the table represents.

Figure 26 – UK Space Agency

Our people

We are committed to ensuring that we are a kind, inclusive and diverse Agency that is representative of the communities it serves. We want to build a positive workplace culture so that our staff feel safe to be themselves and are empowered to deliver our business priorities, whilst fulfilling their potential through clear goals and direction.

The 2021 Civil Service People Survey (CSPS) ran from 28 September to 3 November. As in 2020, we were measured as an Agency in our own right.

The UKSA participation rate was 84%, slightly lower than last year, (86%) but significantly higher than the overall Civil Service response rate of 62%

The Agency had an Employee Engagement Index (EEI) score of 62% – a decrease of 3% from the previous year which shows that there is work to do on engagement overall. The EEI is shaped by five individual questions as well as measuring responses to nine key themes as shown in the table below.

People Survey results	CS Benchmark	2021	2020	Change +/- %
My work	79%	77%	78%	-1
Organisational objectives and purpose	85%	70%	72%	-2
My manager	75%	70%	68%	+2
My team	84%	85%	80%	+5
Learning and development	56%	41%	44%	-3
Inclusion and fair treatment	82%	76%	75%	+1
Resources and workload	75%	66%	64%	+2
Pay and benefits	39%	35%	37%	-2
Leadership and managing change	58%	44%	52%	-8
EEI index	66%	62%	65%	-3

HM Treasury

Civil Service People Survey (2)

Example and why this is best practice

The example on this slide from the Welsh Government:

✓ Builds transparency for users by breaking down themes of the survey in the form of individual bar charts, including multiple-year trend data;

✓ Uses the overall civil service scores as a comparator to build context;

✓ Explains in simple language the results of the people survey and what the charts represent.

Figure 27 – Welsh Government

People Survey

Our staff satisfaction surveys continue to provide a positive snapshot of the experience of our workforce. Our 2021 People Survey results show that we continue to perform well compared to the Civil Service, with almost all theme scores above the benchmark and more than three-quarters of comparable survey questions also performing above the UK benchmark.

Our 2021 Employee Engagement Index Score was consistently high at 68%, maintaining our positive trend of performing at, or above the Civil Service benchmark over the past five years.

Other highlights included our progress in the themes of 'Leadership & Managing Change' and 'Inclusion & Fair Treatment' which have been two key action areas for the Welsh Government in recent years.

Leadership & Managing Change was historically one of our lower performing themes and below the UK Civil Service benchmark. Through our focus in this area, we saw significant increases in the March and October 2020 surveys (+5 and +12 percentage points) bringing our Welsh Government score above the Civil Service benchmark. We continued to perform above this in 2021.

Our Inclusion & Fair treatment Score has generally increased year on year to the highest score in 2020 (86%), consistently performing above the UK Civil Service Benchmark over the past five years.
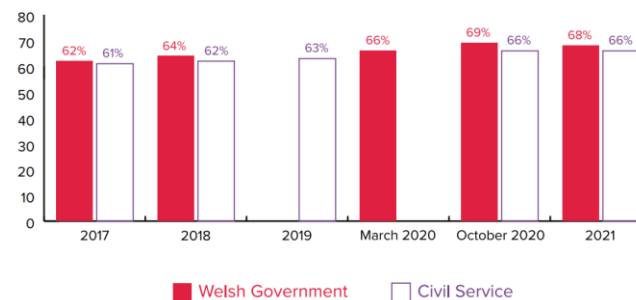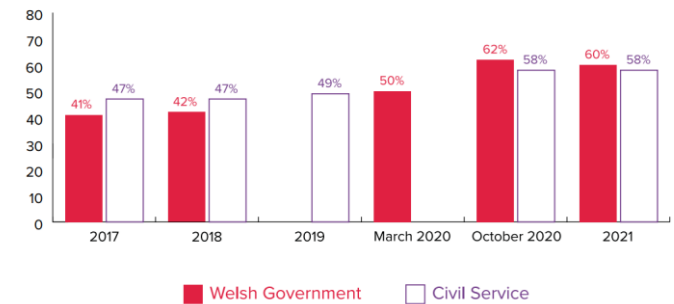
Reporting Issue

Entities are encouraged to include details and narrative of their diversity and inclusion policies, initiatives and longer-term ambitions in the staff report.

Example and why this is best practice

The example on this slide from the Financial Ombudsman Service:

✓ Visually displays the organisation's audience diversity statistics all in one place;

✓ Uses a range of engaging diagrams, graphics and colours, making this section more visually appealing for users;

✓ Includes a prior year comparator to build context for the user.

Figure 28 – Financial Ombudsman Service

Example and why this is best practice

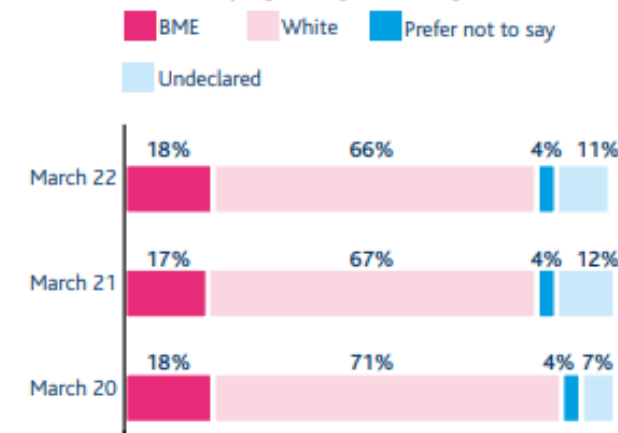The example on this slide from HM Courts and Tribunals Service:

- ✓ Gives a visual overview of the staff diversity information by using coloured charts;

- ✓ Provides the percentages for each category of protected characteristics in a clear and visually appealing way;

- ✓ Builds transparency by providing users with multi-year trend comparator, allowing them to clearly see percentage changes over time.
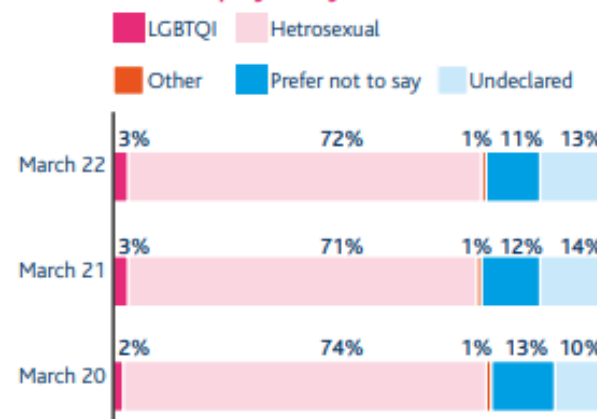
Figure 29 – HM Courts and Tribunal Service

Breakdown of employees by gender

	2019-20		Restated 2020-21		2021-22	
	Male	Female	Male	Female	Male	Female
Executive and non-executive Board members	63%	37%	56%	44%	56%	44%
Senior managers (senior civil servants)	43%	57%	43%	57%	44%	56%
Other employees (non SCS)	29%	71%	29%	71%	29%	71%

Breakdown of employees by ethnicity

BME · White · Prefer not to say · Undeclared

	BME	White	Prefer not to say	Undeclared
March 22	18%	66%	4%	11%
March 21	17%	67%	4%	12%
March 20	18%	71%	4%	7%

Breakdown of employees by sexual orientation

LGBTQI · Hetrosexual · Other · Prefer not to say · Undeclared

	LGBTQI	Hetrosexual	Other	Prefer not to say	Undeclared
March 22	3%	72%	1%	11%	13%
March 21	3%	71%	1%	12%	14%
March 20	2%	74%	1%	13%	10%

Breakdown of employees by disability

Disabled · Non-disabled · Prefer not to say · Undeclared

	Disabled	Non-disabled	Prefer not to say	Undeclared
March 22	13%	70%	7%	10%
March 21	12%	70%	7%	10%
March 20	13%	75%	8%	5%
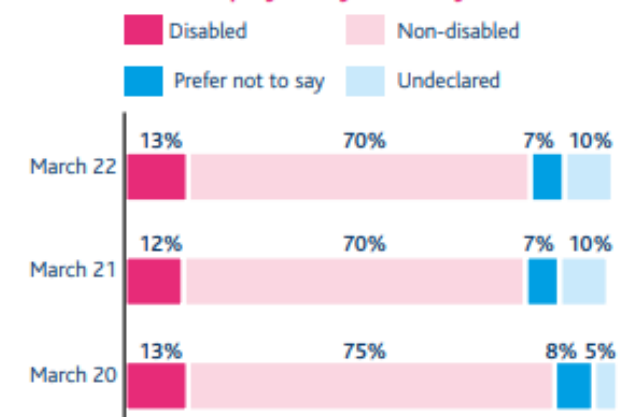
Staff Turnover (1)

Reporting Issue

Entities are required to disclose the staff turnover percentage (on a comply or explain basis). Where it is provided, information should give sufficient explanation and context, including trend data where appropriate.

## Example and why this is best practice

The example on this slide from the UK Supreme Court:

✓ Goes beyond the minimum requirements and includes detail on 'starters' as well as 'leavers' for the year;

✓ Categorises the number of 'starters' and 'leavers' by the month, which increases understandability for users;

✓ Includes a narrative description of the graph to make the information accessible, and to explain the large increases midway through the year.

Figure 30 – UK Supreme Court

The UKSC

Monthly starters/leavers
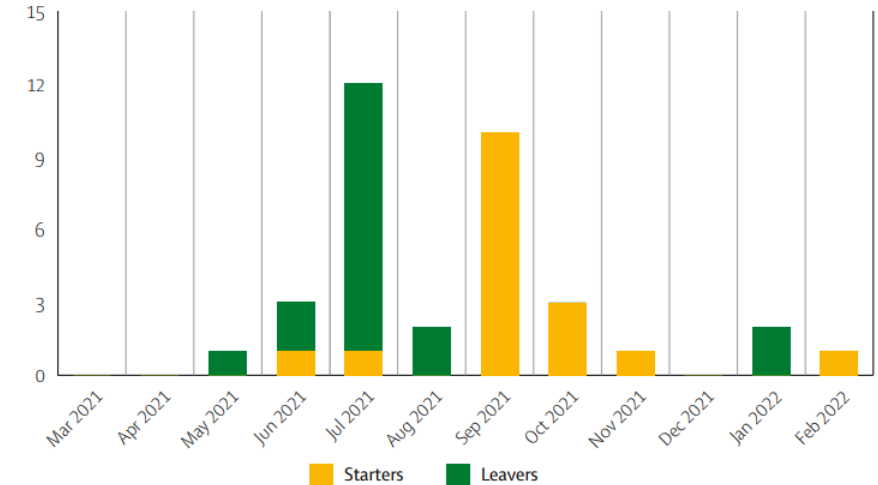
Staff Turnover was slightly higher than previous years in 2021-22, with a total of 18 staff leaving – though 11 of these were JAs employed on fixed term contracts that finished in July 2021. We recruited a new selection of JAs in May 2021, interviewing remotely, and appointed seven who started in September 2021 to support the Justices in researching cases and assist with our education and outreach programme.

As the year progressed, we were able to offer in-person interviews again and recognised the value in allowing candidates familiarisation tours before taking up appointment.

Other recruitment included new roles such as a Senior Policy Officer and a Senior Governance and Business Manager with responsibility for governance at the Court.

Staff turnover and redeployment

Excluding fixed term contracts, the UKSC had eight leavers in the 2021-22, indicating a staff turnover percentage of 12%.

No UKSC staff were loaned out in 2021-22. We 'hosted' one member of staff on a short-term basis in February and March 2021 to cover the absence of the Registrar.

HM Treasury

Example and why this is best practice

The example on this slide from the Department for Work and Pensions:

✓ Uses multi-year trend data from the previous six financial years to allow users to visually see changes over time;

✓ Clearly identifies when the methodology changed for calculating turnover in the graph to build context for the user;

✓ Includes a narrative description of the graph to make the information accessible, and to explain the large increase in turnover (%) since the previous year.

Figure 31 – Department for Work and Pensions

Staff Turnover scores

Turnover rates across DWP have been increasing over the last year as the economy has been recovering from the COVID-19 pandemic.

From April 2021, the methodology used to calculate turnover was changed to ensure that the staff captured in the calculation better reflects the definition used by Cabinet Office.

Over the last year, the proportion of DWP employees on fixed term/temporary contracts increased. Since these members of staff tend to have much higher turnover rates than permanent staff, this change in workforce composition (in combination with economic recovery) has led to a 5.58 percentage point increase in the overall turnover rate, from 5.50% in March 2021 to 11.08% in March 2022.
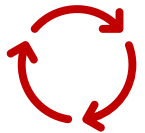

All-staff Annual Turnover Rate

HM Treasury
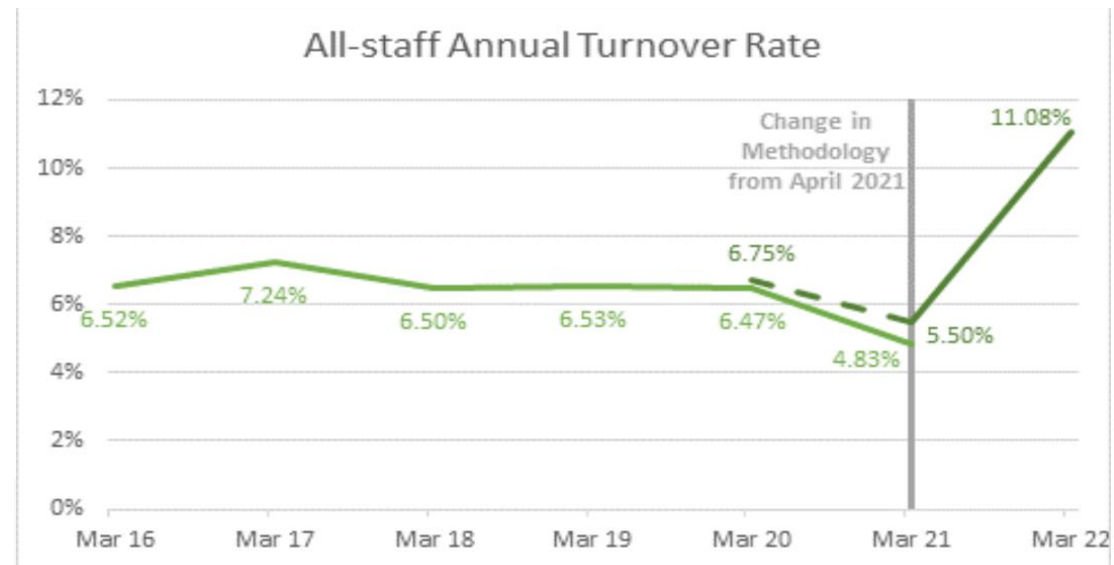
Chapter 4 – **Financial Information**

What should accounts preparers consider in Financial Reporting?
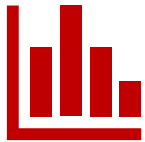
Good financial information should be **understandable, relevant, reliable and comparable.**

Information throughout the annual report and accounts should be **consistent** with the information provided within the financial statements.

Ensure it is **cohesive** and provides a **holistic view** of performance against objectives.

Why is financial information so important?

- The inclusion of financial information is key as it links reporting within the performance and accountability sections with the information reported in the financial statements.

- Financial information is reported throughout the annual report and accounts and should not be exclusive to the financial statements section of the report.

- It is the only part of the annual report and accounts that is formally audited, so linkages build trust.

Further information can be found on this within the 22-23 FReM (Government Financial Reporting Manual).

This chapter sets out some best practice examples on the inclusion of financial information within departmental annual reports and accounts.

HM Treasury

Financial Reporting (1)

Reporting Issue

Departments are encouraged to include key information from the financial statements in the performance report, including clear narrative and comparisons where appropriate.

Example and why this is best practice
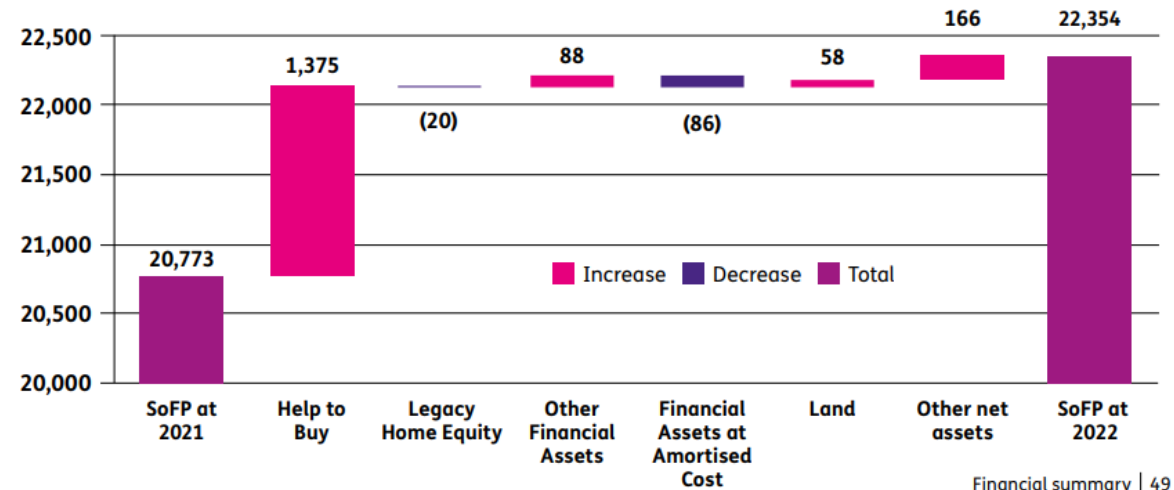
The example on this slide from Homes England:

- ✓ Uses a waterfall chart to clearly show users the increase in net assets during 2021-22;

- ✓ Allows users to easily identify where the biggest impact came from, and provides commentary to support this;

- ✓ Follows on by including a chart on the future growth of net assets on the next page of the report, building transparency for the user.

Figure 32 – Homes England

Growth of assets in 2021/22

In 2021/22 the Agency's balance sheet continued to grow, driven mainly by a £1.38bn net growth in Help to Buy, which represents 82% of net assets (2020/21: 82%).

Chart: Change in net assets during 2021/22 (£m)

Financial summary | 49

HM Treasury

Financial Reporting (2)

Example and why this is best practice

The example on this slide from the UK Atomic Energy Authority:

- ✓ Gives a visual overview of the entity's expenditure by type by using coloured pie segments;

- ✓ Builds transparency and familiarity with the accounts by providing users with multi-year trend data using consistent expenditure categories, allowing them to clearly understand the sources of the increase in annual expenditure;

- ✓ Provides commentary in relation to the figures presented;

- ✓ Also uses a waterfall chart to show the increase in revenue and capital expenditure since 2020-21, making it easy for users to identify where the biggest impact came from.

Figure 33 – UK Atomic Energy Authority

WHAT DO WE SPEND IT ON?
UKAEA spends most its revenue income on people, both permanent staff and contingent labour. These are predominantly engineering and operations people who are operating our facilities.
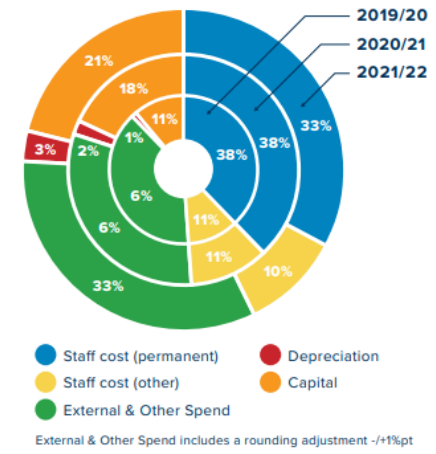
Over the past ten years, as UKAEA facilities and research has grown, the number of people within the organisation has commensurately.

The depreciation is mainly in respect to the buildings on Culham site that are utilised by UKAEA.
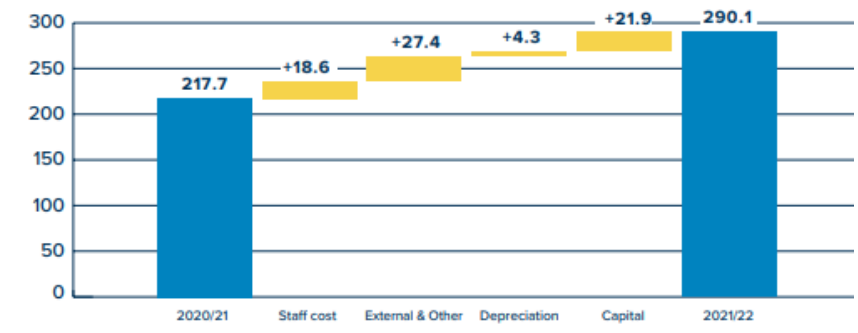
The balance of spend is external, encompassing utilities, plant and equipment, sites services and construction.

In comparison to prior year, absolute spend has grown in all major areas – reflecting the increased investment in fusion research and facilities.

Expenditure by Type (including Capital)
2019/20
2020/21
2021/22

Staff cost (permanent)   Depreciation
Staff cost (other)   Capital
External & Other Spend

External & Other Spend includes a rounding adjustment -/+1%pt

Revenue and Capital Expenditure vs last year (£m)

Operating & capital Expenditure, was £72.7m higher than in 2020/21, with increased expenditure on capital additions being £29.1m of this.

HM Treasury

£ Fraud and Error

Reporting disclosure

Entities administering material support and distribution schemes must provide information on the level of fraud and error.

The example on this slide from the Department for Work and Pensions:

✓ Uses multi-year trend data to allow users to visually see percentage changes in both over and underpayments of expenditure over time;

✓ Clearly identifies when the methodology changed to build context for the user;

✓ Indicates when the Coronavirus pandemic begun, to explain the increase in percentages;

✓ Uses a clearly formatted table to display the percentages of over and underpayments.

Figure 34 – Department for Work and Pensions

Overall overpayments and underpayments as a percentage of expenditure
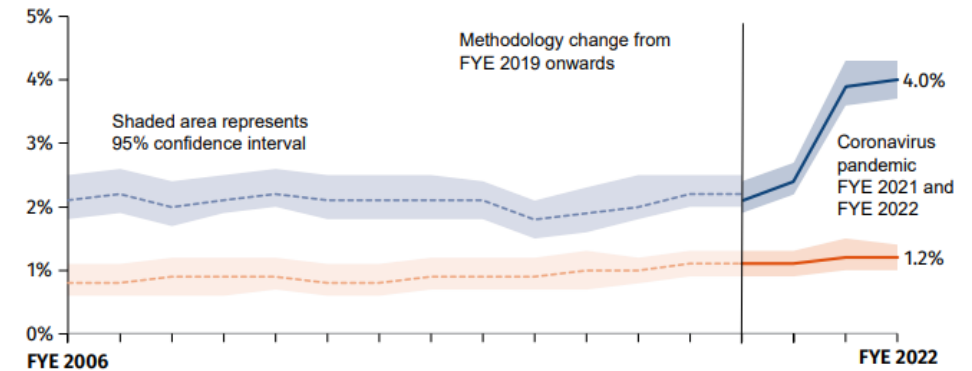
Source: Fraud and error in the benefit system – GOV.UK

	Over (%)	Under (%)
2010-11	2.1	0.8
2011-12	2.1	0.8
2012-13	2.1	0.9
2013-14	2.1	0.9
2014-15	1.8	0.9
2015-16	1.9	1.0
2016-17	2.0	1.0
2017-18	2.2	1.1
2018-19	2.1	1.1
2019-20	2.4	1.1
2020-21	3.9	1.2
2021-22	4.0	1.2

HM Treasury

IFRS 16

Reporting Issue

IFRS 16 Leases is required to be implemented in central government from 1 April 2022 (early adoption was allowed in limited cases). HM Treasury has published Application Guidance on this standard.

Example and why this is best practice

The example on this slide from the Department of Business, Energy and Industrial Strategy:

✓ Provides a reconciliation to the figures presented in the previous year's accounts in an easy-to-understand table.

✓ Clearly disaggregates the different areas of impact of IFRS 16, including splitting out the impact for the core department/agencies and departmental group.

Figure 35 – Department for Business, Energy and Industrial Strategy

Impact on transition

The table below reconciles the operating lease commitments under IAS 17 as presented in the Departmental Group Annual Report and Accounts 2020-21 to the lease liability calculated under IFRS 16 on 1 April 2021:

	Core Department and Agencies £m	Departmental Group £m
Operating lease commitments at 31 March 2021	148	295
Discounted using discount rates	(4)	(29)
Finance lease liabilities at 31 March 2021	-	-
Exemptions for:		
Short term leases	(2)	(10)
Leases of low value assets	-	-
Intangible assets	-	-
Extension and termination options not reasonably certain to be exercised	-	27
Variable lease payments based on an index or a rate	-	-
Residual value guarantees	-	-
Advance payments	-	2
Excluding previously non-lease components	-	-
Re-assessment for IFRS 16	8	-
Service charges and other elements outside of the scope of IFRS 16	-	(2)
Adjustment for irrecoverable VAT reported within IAS 17	(20)	(22)
Lease liability recognised at 1 April 2021	**130**	**261**

Chapter 5 – **Areas for Improvement**

Focus on: Clear presentation and practice to avoid

This section of the report focusses on areas for improvement. For the Best Practice Report 2021/2, HMT have chosen to spotlight the characteristic of clear presentation of information.

This list is not intended to be exhaustive but a selection of suggestions to consider based on feedback from users of accounts.

Avoid hard-to-read colour schemes, such as light-coloured text on a white background

Avoid using similar colours on graphs for different data sets

Avoid an overload of information on a portrait-orientated page; where possible use a landscape-orientated page instead

Avoid confusion when using acronyms and consider if they have been explained clearly to the reader

Avoid using text that is too small or has been stretched out by the graphic

HM Treasury

Chapter 6 – **Further Links**

Information	**Website link**
The Building Public Trust Awards	Link
NAO Good practice in annual reporting	Link
Government Financial Reporting Review	Link
Audit Scotland good practice note on improving the quality of central government annual report and accounts.	Link
The ONS published guidance on producing effective graphs and table	Link
The ONS published guidance on data visualisation: colours	Link
Accessible print publications	Link

HM Treasury

HM Treasury contacts

This document can be downloaded from https://www.gov.uk

If you require this information in an alternative format or have general enquiries about HM Treasury and its work, contact:

Correspondence Team

HM Treasury

1 Horse Guards Road

London

SW1A 2HQ

Tel: 020 7270 5000

Email: public.enquiries@hmtreasury.gov.uk