HM TREASURY

FRAB (118) 08
10 OCTOBER 2013

Financial Reporting Advisory Board Paper

Implementation of Mid Year Reporting in Central Government

Issue:	Autumn Performance Reports were last produced for Parliament in 2009. Plans were in place to introduce a new "mid-year report" in 2012-13 but the decision was taken to postpone this to 2013-14. Treasury has now agreed the proposed format and content of the mid-year reports with the Finance Leadership Group, and these will be introduced for the 17 main Departments that are subject to the Business Plan Indicator performance regime this year.
Impact on guidance:	The FReM will be updated to make clear that these mid-year reports are not deemed to be interim financial reports as defined by IAS 34 *Interim Financial Reporting* and hence the standard does not apply.
IAS/IFRS adaptation?	No as not interim financial reports as defined by IAS 34 *Interim Financial Reporting*
Impact on WGA?	No
IPSAS compliant?	Not applicable, there is presently no IPSAS interim financial reporting standard
Interpretation for the public sector context?	No
Impact on budgetary regime?	Not applicable
Alignment with National Accounts	Not applicable
Impact on Estimates?	Not at present, although Treasury is looking to see greater alignment between Estimates and reporting at both mid-year and in Annual Reports and Accounts in future periods..
Recommendation:	The Board is requested to note that mid-year reporting is being introduced in 2013-14 in accordance with a commitment made to Parliament and to comment on the direction of travel proposed by the Treasury.
Timing:	Applicable for 2013-14

DETAIL

Background

1. Autumn Performance Reports were last produced for Parliament in 2009. Plans were in place to introduce a new "mid-year report" in 2012-13 but the decision was taken to postpone this to 2013-14.

2. This paper updates the FRAB on the proposals for mid-year reporting, which are due to be finalised on 4 October 2013 and will be introduced in the main 17 departments in central government this year. The guidance that will be sent to these departments, which includes a suggested template for mid-year reporting, will be provided to Members prior to the meeting.

Progress on developing mid-year reporting

3. Treasury is not and has no intention of proposing at present the introduction of IAS 34 *Interim Financial Reporting* compliant interim reports. The proposed mid-year reports are not deemed to fall within the remit of the standard. They are not interim financial reports as such but performance reports which contain some relevant supporting financial information. As such the requirements of IAS 34 have not guided discussions when developing mid-year reporting.

4. In the autumn of 2012 discussions took place about how best to produce mid-year reports, and how to do so in a "light touch" way. The discussions centred on the use of data from the Quarterly Data Summaries (QDS) introduced by the Efficiency and Reform Group (ERG) in the Cabinet Office, which would in any case be prepared, and to develop narrative reporting around these data.

5. Two Departments volunteered to pilot this form of mid-year reporting in the early part of 2013. The results were subsequently discussed with those Departments, the Treasury, and the Parliamentary Scrutiny Unit. Departments expressed concerns about duplication and a strong preference for automation from existing data. The focus of the Parliamentary Scrutiny Unit remains on accountability and in obtaining a cohesive report for Parliament at a given point in time, with appropriate narrative. Any developments around automation would need to be consistent with such accountability as ultimately the purpose of the mid-year reports is to meet the needs of Parliament.

6. Using QDS information as the basis of mid-year reporting was proposed because, as stated above, it is already available, and could support a "light touch" approach to mid-year reporting. Treasury recognises, however, that it has a number of disadvantages. These include the fact that its coverage is significantly incomplete for a number of departments, and QDS data is not used in Estimates, departmental Board reporting or Annual Reports and Accounts.

7. As well as considering the best way forward for mid-year reporting, Treasury is leading a review of Annual Reports and Accounts through the "Simplifying and Streamlining Accounts" project. As work on mid-year reporting and this project have developed it

has become clear there is the opportunity for synergies to be gained from looking at the two together. The emerging findings from the simplifying and streamlining accounts project is that users find it difficult to track spend across different forms of financial reporting, and that they find segmental reporting information very useful or potentially useful. Given that segmental reporting should be based on the key areas of the business that are relevant to department Boards for their internal management, Treasury would like to see this type of analysis take a more prominent role in the future.

Proposals for mid-year reporting

8. Going forward Treasury sees significant advantages in departmental financial reporting being more consistent from a financial analysis perspective across Estimates, internal Board reporting, mid-year reporting and Annual Reports and Accounts. If the format of reports is more consistent it is likely transparency, accountability and scrutiny will improve. As noted above a segmental reporting analysis may be the most useful, as it should be based on a department's main units of operation.

9. Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The accounting standard requires financial information to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

10. Treasury recognises, however, that achieving such alignment cannot be achieved overnight. It is clear that many departments will need to refresh the financial analyses being used for Estimates and changing this analysis will require consultation with Parliament. Notwithstanding the position on Estimates, at present the nature of the segmental analysis shown in the Annual Report and Accounts varies, and some may not be appropriate for wider reporting, and in particular Estimates.

11. Treasury notes that the wider use of segmental reporting is a sensible direction of travel and has discussed the use of segmental reporting for mid-year reports with the Finance Leadership Group (FLG). It has been agreed that ideally mid-year reports for 2013-14 should contain an analysis of spend based on operating segment, consistent with each department's internal reporting. However, given the existing variation in practice, it is recognised that this may not be possible to implement immediately. As such it has been agreed with FLG that the 2013-14 mid-year reports should be produced where possible using operating segments, but where this is not possible the QDS format can be used instead.

Summary and recommendation

12. The Board is requested to note that mid-year reporting is being introduced in 2013-14 in accordance with a commitment made to Parliament and to comment on the direction of travel proposed by the Treasury. These mid-year reports are not deemed to fall within the remit of IAS 34 and will only be produced, at least initially, by the 17 main Departments that are subject to the Business Plan Indicator performance regime.

13. A small amendment to the FReM clarifying that these mid-year reports are not IAS 34 interim financial reports is proposed and is included in the draft FReM paper which is item 5 of this meeting. Guidance is due to be released by 4 October and will be provided to Members at the meeting.

HM Treasury
10 October 2013