HM Treasury

Simplifying and streamlining statutory annual report and accounts

Cm 8905

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Simplifying and streamlining statutory annual report and accounts

Presented to Parliament by
the Chief Secretary to the Treasury
by Command of Her Majesty

July 2014

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Contents

Executive summary

The introduction of accruals accounting and budgeting in central government has led to significant improvements in financial management and external accountability, particularly since the further reforms introduced under the Clear Line of Sight project that aligned the treatment of transactions between Estimates, budgets and accounts. Further improvements can be made, however, particularly in the area of reporting financial and non-financial performance by departments in their Annual Report and Accounts (ARA). Anecdotal evidence has suggested that users of these documents find them inaccessible and difficult to understand, limiting their use not just from an external accountability perspective but also for improving financial management more broadly.

The Project and vision

HM Treasury launched the Simplifying and Streamlining Accounts project (the Project) in April 2013 with the aim of simplifying and streamlining the presentation of the statutory ARA produced by central government entities so as to better meet the needs of users. The key findings from the Project have highlighted that user needs are not being met by the current reporting arrangements, in particular that it is hard to link the performance narrative to the figures in the accounts. HM Treasury proposed high level recommendations to the Chairs of the Liaison Committee and Public Accounts Committee in early 2014[1] that would see a restructuring of the traditional 'front-half' annual report and 'back-half' financial statements into three more integrated reporting requirements based on:

- Performance – "telling the story"
- Accountability; and
- Financial statements

Feedback received on the high level proposals from the Liaison Committee and the Public Accounts Committee was positive and provided additional support for the approach being developed.[2] HM Treasury has undertaken additional work with the Parliamentary Scrutiny Unit, the National Audit Office, and other government departments during early 2014. This has been based on a clear vision that aims to ensure that the ARA is providing information about the reporting entity that is useful to Parliament and the wider user community for accountability and decision-making purposes. This vision is also based on an understanding that improved corporate reporting can and must be part of wider changes that are aimed at improving financial and non-financial management more broadly in central government. This vision has been central to the further more detailed development of the three integrated reporting requirements.

Performance

The purpose of the Performance section is to "tell the story" of the reporting entity in a way that addresses user criticisms that the current ARA lack an overall narrative and are difficult to understand. It provides information on the entity, its main objectives and strategies and the principal risks that it faces. It will complement, supplement and provide context for the financial

[1] Letter from Chief Secretary to the Treasury to Chairs of Liaison Committee and Public Accounts Committee, 20 January 2014

[2] Letter form Chair of Liaison Committee to the Chief Secretary to the Treasury, 3 March 2014, Letter from Chair of Public Accounts Committee to the Chief Secretary to the Treasury, 26 February 2014

statements, with the intention that the information in the overall ARA be integrated to provide a cohesive document. Under the proposed new requirements individual departments will take far greater ownership of the content included in the performance section. Nevertheless there are a number of high-level structural elements which HM Treasury contends would improve comparability across departments, while still providing flexibility for entities to tell their own story about the key activities and outcomes during the financial year in a manner that best meets the needs of their own users. HM Treasury is therefore proposing that the Performance – "telling the story" reporting requirement will require entities to produce two sections. These are:

1. An "Overview" which will give the user a short summary that provides them with sufficient information to understand the organisation, its purpose, the key risks to the achievement of its objectives and how it has performed during the year; and
2. A "Performance analysis" which will be a more detailed performance summary providing a clear indication of how the entity measures its performance, allowing for the presentation of a more detailed integrated performance analysis.

Accountability

The Accountability section will meet key accountability requirements to Parliament stemming from the fact that it is the primary user of the ARA. It is also the section that departments will use to demonstrate compliance with norms and specific codes of good corporate governance. The Accountability section will, therefore, provide information that will enable the user to assess whether the entity:

1. Has the governance structure in place to meet its objectives;
2. Has complied with key rules and requirements related to the remuneration of directors and other staff; and
3. Remained within the voted limits on resource and capital spending set by Parliament, complied with other authorities governing the entity, and met the requirement to produce true and fair financial statements.

While HM Treasury expects individual departments to take far greater ownership of the content included in the ARA as a whole in the future, there is less scope for this in the Accountability section and there will be a greater number of mandated requirements that departments will have to comply with.

Financial Statements

For the Financial Statements section HM Treasury is proposing a move away from the current departmental format to one which is more based on the reporting structure used by WGA. The move to a format more closely aligned with WGA will improve the consistency between entity and macro level financial reporting and as the format of the WGA accounts is on a more common private sector basis, the financial statements should be more accessible to users. As part of the suggested move to the WGA format, HM Treasury will move from the current three column approach of core department, department and agencies and departmental group to a two column approach of department and agencies and departmental group. Indication from users and preparers is that the current format is confusing, and does not reflect the reality of how entities are financially managed.

Financial reporting guidelines will make clear that notes to the accounts will only be required for material balances. Removing non-material balances, with a clear recognition that materiality is not restricted to just monetary value, will significantly streamline and simplify the accounts, ensuring that the user is only presented with and can focus on relevant and material information. There will be no diminution of audit scope or depth, only the presentation of the information will be affected.

Feedback and next steps

The overall reporting vision presented is applicable to all statutory reporting in central government and HM Treasury will be examining the illustrative financial statements produced for entities other than departments and making amendments as necessary. This work will be undertaken throughout the remainder of 2014. This will allow due process consultation to be undertaken in time for the introduction of changes for the 2015-16 financial year.

Feedback on the proposals is requested from Parliamentary users of the ARA of central government reporting entities by 3 October 2014 so that the necessary changes can be made before the final proposals for the format of the 2015-16 ARA can be taken to the Financial Reporting Advisory Board for comment and approval.

1 Introduction

1.1 Until the introduction of Resource Accounting and Budgeting (RAB) in the late 1990s, central government departments planned and reported their expenditure on a cash basis. Since the 1999-2000 financial year, when RAB was introduced, all departments have produced audited Generally Accepted Accounting Practice (GAAP)-compliant resource accounts with the planning, managing, recording and reporting of transactions and other economic events being on an accruals basis.

1.2 The introduction of accruals accounting and budgeting has led to significant improvements in financial management and external accountability, particularly since the further reforms introduced under the Clear Line of Sight project that aligned the treatment of transactions between Estimates, budgets and accounts. There have, however, recently been indications that further improvements could be made, particularly in the area of reporting financial and non-financial performance by departments in their Annual Report and Accounts (ARA).

1.3 Anecdotal evidence has suggested that users of these documents find them inaccessible and difficult to understand, limiting their use not just from an external accountability perspective but also for improving financial management more broadly. This is not just an issue that affects reporting in the public sector. Similar problems are affecting corporate reporting in the private sector and, in recent years, efforts have been made at "cutting clutter" and reducing disclosure requirements of private sector ARA in order to improve usability.

1.4 Given HM Treasury's statutory powers under the Government Resources and Accounts Act 2000 to determine the reporting framework under which departments operate, central government is in a unique position to make changes that are designed to expressly meet the needs of Parliament - the primary user of these documents - and the needs of other users. This paper provides an overview of the project undertaken to do this and the detailed proposals for changes. HM Treasury will consult on the changes with an expectation of introducing them for the 2015-16 financial year.

The simplifying and streamlining accounts project

1.5 HM Treasury launched the Simplifying and Streamlining Accounts project (the Project) in April 2013 with the aim of simplifying and streamlining the presentation of the statutory ARA produced by central government entities so as to better meet the needs of users.

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.

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.

1.8 In addition to the core accountability function that financial reporting fulfils, the Project also highlighted that the development of the Whole of Government Accounts (WGA) and Clear Line of Sight reforms have had a significant positive impact on the usefulness of financial reporting for decision-making purposes. The further integration of performance and financial information is essential to improvements in wider financial management, as recognised in the recent Review of Financial Management in Government[1]. Increasing the usefulness of the ARA for decision-making has also, therefore, been a central aim of the Project.

Taking the results of the outreach work forward

1.9 High level recommendations for the future structure and content of the ARA produced by central government entities were agreed by the Project steering group in late 2013. This steering group was led by the Director of Public Spending at the Treasury and including representatives from the National Audit Office, the Parliamentary Scrutiny Unit, the Chartered Institute of Public Finance and Accountancy and the central government Finance Leadership Group.

1.10 These high level recommendations were agreed by the Chief Secretary to the Treasury and put to the Liaison Committee and Public Accounts Committee earlier this year for comment. This was accompanied by a commitment to producing this command paper explaining the proposals in more detail.

Audience of this paper and feedback requested

1.11 This paper is primarily addressed at Parliamentary users of the ARA of central government reporting entities. As the primary users of the ARA, it is the needs of Parliamentary users that HM Treasury is seeking to meet. HM Treasury is also, however, looking to ensure that the needs of other users, including internal users within central government, are met by these proposals. Feedback is requested by 3 October 2014.

[1] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/209220/strengthening_financial_management_capability_in_government.pdf

2 Purpose of the ARA and high level recommendations

2.1 The primary purpose of the ARA is to provide information about the reporting entity that is useful to users for accountability and decision-making purposes. It is the needs of users that must dictate reporting requirements, and meeting those needs is the ultimate aim of the ARA.

2.2 Since the introduction of RAB, HM Treasury has attempted to meet the needs of users of central government ARA by applying private sector reporting requirements to entities - with some adaptations made for the public sector context in which they operate. Over a number of years additional requirements have also been included at the request of Parliament and other central government departments in an ad-hoc manner. This has led to an ARA that is effectively:

1. A front-half annual report based on private sector Companies Act requirements with a large number of additional mandatory disclosures; and
2. A back half containing a set of financial statements based on International Financial Reporting Standards (IFRS) as adapted for the public sector context with the addition of a unique statement to ensure accountability to Parliament; the Statement of Parliamentary Supply.

2.3 The key findings from the Project have highlighted that user needs are not being met by the current reporting arrangements, in particular that it is hard to link the performance narrative to the figures in the accounts. As such the high level recommendations developed in late 2013 proposed a restructuring of the traditional ‘front-half’ annual report and ‘back-half’ financial statements into three more integrated reporting requirements based on:

- Performance – “telling the story”
- Accountability; and
- Financial statements

High-level recommendations

Performance – “telling the story”

2.4 The performance “telling the story” reporting requirement was proposed in order to meet user criticisms that ARA lack an overall narrative and are difficult to understand. HM Treasury’s recommendation to address this problem was to introduce a number of high-level structural elements which aim to improve comparability across departments while providing flexibility for entities to tell their own story about their key activities and outcomes during the financial year. These elements were:

- Clear statement of the purpose and activities of the organisation;
- High level financial information with cross references to the audited accounts;
- Trend information based upon segmental/management information data;

- Commentary against trends and performance against policy; and
- Expected future policy changes

Accountability

2.5 The "accountability" reporting requirement was proposed because the primary user of the ARA is Parliament, and there are a number of key accountability requirements resulting from this that must be met and be seen to be met. HM Treasury's initial high-level proposal was for a distinct accountability section to be included in the annual report and accounts containing:

- The Governance Statement and information on strategic risks to the entity;
- The remuneration report; and
- Information on Parliamentary accountability – including the Statement of Parliamentary Supply.

Financial statements

2.6 Finally, evidence gathered during the project affirmed that users greatly valued receiving a set of financial statements and disclosure notes that the National Audit Office has audited to international standards of audit. The Project also highlighted, however, significant evidence that the concept of materiality was poorly understood and inconsistently applied, with a checklist approach being taken for the inclusion of information rather than a proper consideration of user needs. While materiality in the public sector is a broad concept encompassing the nature and context of items and economic events as well as monetary value, this checklist approach has meant that information is often included in the ARA that has little or no value to the user. HM Treasury therefore proposed a final high-level requirement for the annual report and accounts to include:

- Audited financial statements; and
- Disclosure notes for material balances only.

2.7 As with the other reporting requirements noted, HM Treasury's view was that financial information should be better integrated with other reporting throughout the ARA, rather than being seen as a distinct standalone reporting element.

Feedback on high level recommendations

2.8 Feedback received on the high level proposals from the Liaison Committee and the Public Accounts Committee was positive and provided additional support for the approach being developed. The necessity of high standards of audit and assurance was reiterated, as was the need to ensure the prominence of Parliamentary accountability. A coherent narrative, the better integration of performance and financial information, and the improved presentation of trend data were also supported. The need to ensure the mandatory reporting of certain information, such as remuneration, that is material by nature and of significant importance to users was also noted.

2.9 Based on this feedback HM Treasury has undertaken additional work with the Parliamentary Scrutiny Unit, the National Audit Office, and other government departments during early 2014. HM Treasury is now able to bring forward the following detailed proposals for central government reporting requirements based on the first principles developed during the Project and the reporting vision outlined in the following Chapter.

3 Reporting vision

3.1 The vision that HM Treasury has for the future of reporting has led to the development of detailed proposals with a strong focus on the user. At its core is a desire to ensure that the ARA is providing information about the reporting entity that is useful to Parliament and the wider user community for accountability and decision-making purposes. There is also a need to ensure that the ARA and other statutory and non-statutory reporting requirements including the Estimates, Mid-Year Reports and Whole of Government Accounts become more integrated, allowing users to better track financial and non-financial information and performance across all these reporting formats.

3.2 HM Treasury also strongly contends that improved corporate reporting can and must be part of wider changes that are aimed at improving financial and non-financial management more broadly in central government. The Review of Financial Management in Government has highlighted that while there has been a necessary focus in recent years on spending control and inputs, there has been less focus on defining and measuring outputs and outcomes. By giving reporting entities greater freedom to focus on what matters to them and how they define success in their ARA, the information provided in those reports will become more output and outcome focussed. This will not only allow Parliament to better hold those charged with governance to account but it will also hopefully ensure entities are themselves more focussed on delivering what adds real value in their operations.

3.3 As entities are given more scope to decide on how they report based on what is important to them there will necessarily be divergence in reporting, with different departments electing to focus on different areas based on their operations, statutory responsibilities, and where it is they are seeking to add value. With a move towards more user focussed reporting HM Treasury also expects this to necessarily be an iterative process, with reporting changing over time based on feedback from key users such as Parliamentary Committees.

3.4 Consequently, while there will in future be more emphasis on reporting tailored to the individual entity and less focus in future on generic reporting requirements there will still be some key reporting requirements that HM Treasury will require Departments to meet. These are mostly related to key accountability and governance disclosures, where statutory requirements or centrally determined practices and codes are in place. They also relate to the format of the financial statements, where in order to meet the needs of IFRS, ensure comparability and to improve operational efficiency across central government a set format for the primary statements and associated notes will be mandated.

3.5 HM Treasury will therefore set the overall high-level structure of the ARA. How this reporting vision translates in detail into the recommendations for future reporting requirements is the subject of the following chapters.

3.6 While HM Treasury is seeking for the information in the ARA to be integrated to provide a cohesive document, there is no proposal at present to follow the International Integrated

Reporting <IR> Framework[1]. <IR> is a new framework designed to provide integrated reports by organisations about how they create value. Integrated reports are expected to be concise documents providing users with an understanding of how an organisation's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value in the short, medium and long term. HM Treasury is committed to examining the appropriateness of <IR> for the public sector context with the other Relevant Authorities and the Financial Reporting Advisory Board. To that end HM Treasury has agreed to be part of a public sector pioneer network being led by the Chartered Institute of Public Finance and Accountancy.

1 http://www.theiirc.org/international-ir-framework/

4 Performance – "telling the story"

4.1 The purpose of the Performance section is to "tell the story" of the reporting entity in a way that addresses user criticisms that the current ARA lack an overall narrative and are difficult to understand. It provides information on the entity, its main objectives and strategies and the principal risks that it faces. It will complement, supplement and provide context for the financial statements, with the intention that the information in the overall ARA be integrated to provide a cohesive document.

4.2 Under the new requirements individual departments will take far greater ownership of the content included in the performance section. Nevertheless there are a number of high-level structural elements which HM Treasury contends would improve comparability across departments, while still providing flexibility for entities to tell their own story about the key activities and outcomes during the financial year in a manner that best meets the needs of their own users. HM Treasury is therefore proposing that the Performance – "telling the story" reporting requirement will require entities to produce two sections – an "Overview" and a "Performance analysis".

"Overview"

4.3 The purpose of the "Overview" is to give the user a short summary that provides them with sufficient information to understand the organisation, its purpose, the key risks to the achievement of its objectives and how it has performed during the year.

4.4 HM Treasury proposes that this will be a short focussed section that will in no more than 10 to 15 pages provide the user with:

- Minister/Chief Executive statement;
- Statement of the purpose and activities of the organisation;
- Key issues that affect the entity in delivering its objectives; and
- Performance summary.

4.5 The Overview should be enough for the lay user to not need to look further into the rest of the ARA unless they were interested in further detail or had specific accountability or decision making needs to be met.

Table 4.A: Contents of the Overview

Section	Purpose
Minister/Chief Executive statement	Gives the most senior individual in the organisation an opportunity to present the report and give their perspective on the performance of the organisation over the period.
Statement of the purpose and activities of the organisation	This is designed to provide users with a clear statement of the purpose of the organisation and its key activities
Key issues that affect the entity in delivering its objectives	Entities have generally been poor at identifying and reporting on risks and other issues that could affect the delivery of objectives. This section requires entities to address this key user need.
Performance summary	The performance summary will effectively be an executive summary of the performance analysis section which will follow the Overview. HM Treasury expects this to be a lively and visual presentation with a focus on trend information.

"Performance Analysis"

4.6 The "Performance Analysis" section will be a more detailed performance summary providing a clear indication of how the entity measures its performance, allowing for the presentation of a more detailed integrated performance analysis. HM Treasury will expect reporting entities to provide information in this section on:

- How the entity measures performance; and
- A more detailed performance analysis utilising a wide range of data including key financial information from the financial statements section of the accounts.

Table 4.B: Contents of the Performance Analysis

Section	Purpose
How the entity measures performance	The overall purpose of the performance section is to provide entities with the freedom to report on what they see as their important performance measures in a manner that best reflects how performance is managed while meeting users needs. This section will provide the user with an understanding of what the entity sees as its key performance measures and how it checks performance against those measures.
Performance analysis	The performance analysis should provide detail and analysis of performance against the key performance measures that are important to the entity. It is expected that entities will provide a lively and visual presentation, drawing together information from other parts of the annual report and accounts and also providing longer term trend analysis where appropriate.

Current content and place in future reporting

4.7 There are currently a large number of unconnected reporting requirements mandated by HM Treasury for inclusion in the ARA through the means of an annual Public Expenditure System paper that require entities to report on sustainability, rural proofing and adaptation to climate change, the Common Core Tables, Business Plan Indicators, Quarterly Data Summary information, and Reporting on Better Regulation. The Project has provided clear evidence that including these measures on a standalone basis in the ARA is not meeting user needs. In the future if they are necessary to understanding how the entity measures its own performance then HM Treasury would expect these to form part of an integrated performance analysis.

4.8 Although the aim is to provide individual departments with greater flexibility in reporting performance there are two overarching constraints that have to be taken into consideration. The first is that the overall performance regime for departments is dictated by the coalition agreement which will in practice impact on the extent to which an individual entity is able to determine how it will measure its own performance. This performance regime is not managed by HM Treasury and while agreement has been reached with the Cabinet Office for a relaxation in the mandatory reporting of certain information, there is currently a requirement to report against this regime while it remains in place.

4.9 The second overarching constraint is the requirements of the Companies Act and the manner in which they are translated into the Financial Reporting Manual for the public sector context. The traditional approach has been to view departments as being equivalent to large quoted corporate entities, with a need to meet the requirements of the Companies Act to produce a Strategic Report, a Directors' Report, and a Remuneration Report. HM Treasury intends to change the approach taken in the past and ensure that while the spirit of the Companies Act requirements is still met the actual contents are driven by user needs of public sector financial reports rather than attempting to interpret private sector reporting requirements. Initial consultation on this approach has been undertaken with the Financial Reporting Advisory Board and consultation on the detailed changes that will be introduced in the 2015-16 Financial Reporting Manual will take place over the summer of 2014.

4.10 The current mandated requirements and how they are expected to fit into the new reporting framework are shown below.

Common core tables

Current framework

4.11 The Common Core Tables aim to provide Parliament and other users with core data in a common format across central government. They were rationalised and simplified in 2010-11 as a result of the Clear Line of Sight reforms. Table 4.C summarises the contents of the tables for the 2013-14 financial year just ended.

Table 4.C: Common Core Tables

Core Table		Details of content
Table 1	Public spending	Summary of departmental net expenditure using the same headings as voted within the Estimate. The tables includes five prior years' outturns (including 2013-14 - the year just ended), and plans for the following two years based on budgetary totals agreed at the last Spending Review. The total period covered by the table in 2013-14 is 2009-10 to 2015-16.
Table 2	Public spending control	Year just ended outturn figures at the control level against the budgetary control limits, showing original Estimate, Supplementary Estimate and final Estimate figures as comparators.
Table 3	Capital employed	Summary of capital employed by the department. The table includes five prior years' outturns (including year just ended) and the plan for the following two years.
Table 4	Administration budgets	More detailed analysis of expenditure against the administration control total. Includes five prior years' outturns (including year just ended) and plans for following two years. Scope of table in 2013-14 will be 2009-10 to 2015-16.
Table 5	Staff in post	Provides at least three years' outturn data of number of staff in post data (including year just ended). It distinguishes between permanent staff and non-payroll staff (consultants, and contingent labour i.e. interim managers, specialist contractors and agency staff).
Table 6	Total spending by country and region (over spread of years)	Provides at least four years' outturn data of identifiable expenditure by country and region. For 2013-14 the range is 2009-10 to 2012-13.
Table 7	Total spending per head by country and region (over spread of years)	Provides at least four years outturn data of total identifiable expenditure on services by country and region per head. For 2013-14 the range is 2009-10 to 2012-13.
Table 8	Spending by function or programme, by country and region (for latest outturn year, 2012-13)	Provides total identifiable expenditure on services by function or programme, by country and region for latest outturn year. In 2013-14 this will be 2012-13.

Position in new ARA

4.12 Country and regional analysis data provided in the Tables 6 to 8 is available in other publications, notably the HM Treasury Public Expenditure Statistical Analyses (PESA) available at https://www.gov.uk/government/collections/public-expenditure-statistical-analyses-pesa. As such the inclusion of this data in the ARA will be removed as it duplicates information elsewhere and relates to previous financial years.

4.13 For the other tables which are not readily available in other publications, user feedback is that there is some confusion caused by an inability to reconcile this information to the financial and performance information provided elsewhere in the ARA. Based on the feedback from users HM Treasury is proposing the removal of all but two of the Common Core Tables. The tables being retained are Table 1 - Public Spending, which provides a summary of departmental net expenditure using the same headings as voted within the Estimate and as such gives transparency of spend against the Estimate, and Table 4 - Administration Budgets, which ensures that there is continued visibility around administration spend even under a proposed financial statement format which removes this compulsory split.

Business Plan indicators and Quarterly Data Summary

Current framework

4.14 Main departments are required to publish a Business Plan as part of the transparency framework. These Business Plans set out the department's priorities, structural reform plans, expenditure plans and its contribution to transparency. The Business Plan also sets out the definitions for department's input and impact indicators. Departments must report performance against the Business Plan priorities, structural reform plans and indicators in the ARA. These requirements give departments some flexibility in that they are required to report against their Business Plan in a manner that they consider would best contribute to the understanding of performance and value for money in their area of responsibility. Outturn data for current and prior year against each of the indicators in the business plan must be included along with overall headline spend data from the Quarterly Data Summary, which is currently the Government's main tool for gathering operational management information. The performance report is also required to include narrative to support understanding of the data provided.

Position in new ARA

4.15 Under the proposed framework, reporting on performance against the Business Plan, including the Business Plan input and impact indicators, and spend data from the Quarterly Data Summary will be included in the performance analysis to the extent that the department measures its performance against these areas.

4.16 The overall performance regime for departments is currently dictated by the coalition agreement so HM Treasury expects the Business Plan priorities and the input and impact indicators to remain a feature of the performance analysis in some format for as long as this performance regime is in place. Continued transparency over these areas in the current reporting format will be achieved through maintaining reporting on the Number 10: Transparency website[1] and the Government Interrogating Spending Tool website.[2]

[1] http://transparency.number10.gov.uk/

[2] http://www.gist.cabinetoffice.gov.uk/

Better regulation

Current framework

4.17 Reporting on Better Regulation requires departments to describe how they have applied the Government's Principles of Regulation (both domestic and EU). This needs to be supported by examples of how the department is delivering on the Government's commitment to producing less regulation, making better regulation and to only introduce new regulations as a last resort, as well as any action taken on mitigating the impact of new regulations on small businesses and micros. Departments are also required to offer information about their progress relating to both domestic and European legislation:

- One-in, One-out/ One-in, Two-out – balance of ins and outs and if in deficit a statement noting what action is being taken to rectify the deficit before the end of the Parliament;
- Regulatory Policy Committee – number of impact assessments submitted to the Committee for scrutiny at both consultation and final stages and the percentage of measures obtain a green, amber, and red opinion;
- Small business – action taken to mitigate regulatory burden on small and micro-businesses;
- Red Tape Challenge – details on decisions taken as a result of the Red Tape Challenge, including progress on their implementation and details of any impact on business;
- Sun-setting and Review – number of measures introduced with a statutory review or sunset clause. Number of post implementation/statutory reviews carried out during the year;
- Alternatives to regulation – examples of where departments have or are planning to implement alternatives to regulation;
- Implementation and guidance – report on any improvements in how regulations are implemented;
- Focus on enforcement – details of any engagement with the Focus on Enforcement reviews; and
- EU regulations – examples of where departments have (a) reduced unnecessary costs to business stemming from EU policies; (b) pressed the EU to deliver the recommendations in the Business Taskforce's report "Cut EU red tape"; and (c) identified and, where appropriate removed, gold-plating.

Position in new ARA

4.18 Under the proposed framework, performance on Better Regulation will be included in the ARA to the extent that this is a key performance measure that the department measures itself against. This will result in a more proportionate approach that is better tailored to the different profiles of regulatory activity of different departments and works with the new statutory reporting framework for regulatory burdens proposed in the Small Business, Enterprise and Employment Bill. Possible recommendations from the current Regulatory Reform Committee enquiry will also have an impact on reporting, be it via the ARA or another mechanism.

Sustainability report and reporting on sustainable development, adapting to climate change and rural proofing

Current framework

4.19 The Government is committed to mainstreaming sustainable development in the way policy is developed, operations are run, and goods and services are purchased and delivered. This will maximise the positive impacts on the economy, society and the environment. HM Treasury supports reporting on sustainability, having in 2010-11 introduced a requirement for all entities that are required to report against the Greening Government Commitment to include a sustainability report in the ARA. This report is focussed on environmental sustainability, with further reporting on other aspects of sustainability encouraged.

4.20 In addition to the HM Treasury mandated sustainability report, there are further reporting requirements on sustainable development, adapting to climate change and rural proofing that departments must comply with. Departments are required to include a description of progress in year, in particular on the sustainable development commitments set out in the business plan. This includes (a) progress on the departments tailored sustainable development statement (b) assessing and managing social and environmental impacts and opportunities in policy development and decision-making (c) progress on the department's plan to deliver on Greening Government Commitments and (d) progress on procuring from small businesses. Departments are also expected to report on other policies or projects making a significant contribution to sustainable development and how they are mainstreaming the value of nature in decision-making.

4.21 For adapting to climate change departments are required to include a general statement giving assurance that action has been taken to ensure that those policies with long-term implication are robust in the face of climate change. They are also required to note any follow-up actions from the previous year's report and highlight key policies where impact on future climate has been a key consideration.

4.22 For rural proofing, departments are required to provide information on how rural proofing is applied to all aspects of policy development and implementation cycles.

4.23 Where not already including in other reporting, departments are also required to note how sustainable development is embedded in overall governance, decision making and assurance processes and how staff learning and participation is supported.

Position in new ARA

4.24 The current reporting framework is onerous and leads to departments focussing on meeting disclosure requirements rather than embedding sustainable development. As noted Government is committed to mainstreaming sustainable development and there are also certain targets placed on entities that have to be met. These include the Greening Government Commitments.

4.25 Under the proposed framework, it is expected that performance on sustainable development will be included in the ARA as a key performance measure that the department measures itself against and/or in the manner in which sustainable development is embedded in other performance measures. There will, however, also be a minimum requirement set for reporting on certain high-level indicators that form the basis of the Greening Government Commitments. This will align with compulsory requirements for certain private sector entities to now report on Greenhouse Gas Emissions but will have a wider scope to include:

- Greenhouse gas emissions;

- Waste;
- Water consumption; and
- Procurement.

4.26 Where measures change under any new Greening Government Commitments, mandatory reporting requirements will also be amended. This approach means that the standalone HM Treasury sustainability report will no longer be required as part of the ARA, although entities will be free to include such a document within the ARA should they wish to do so. HM Treasury will work with other government departments to develop an appropriate online mechanism by which departments will be able to report in further detail and on a timelier basis on sustainable development measures outside of the constraints of the ARA process.

Complaints to Parliamentary Ombudsman

Current framework

4.27 In response to a recommendation made by the Public Administration Select Committee, departments are required to publish information on complaints to the Parliamentary Ombudsman in their ARA. This includes the number of complaints accepted by the Ombudsman for investigation in year, the number of investigations reported on and the percentage of those reports where the complaint was upheld in full, in part, or not upheld and the number of Ombudsman recommendations complied with and not complied with. Departments are also expected to provide context by providing information on complaints more widely.

Position in new ARA

4.28 HM Treasury proposes the retention of mandatory reporting on complaints to the Parliamentary Ombudsman as this is a key accountability requirement but envisages that this reporting will be better placed in future in the new "Accountability" section of the ARA and that current reporting requirements will be streamlined.

Staff numbers, pay multiples disclosures, off-payroll arrangements and spend on consultancy and temporary staff

Current framework

4.29 There are a number of mandatory reporting requirements related to staff numbers, remuneration, and spend on consultancy, temporary staff and off-payroll arrangements.

4.30 As highlighted in the Common Core Table section departments are required to provide at least three years' outturn data on staffing which must also include numbers of non-payroll staff. Separately they must report spend on consultancy and on the use of contingent labour.

4.31 Following the Review of Tax Arrangements of Public Sector Appointees published by the Chief Secretary to the Treasury on 23 May 2012, departments have been required to publish information on their highly paid and/or senior off-payroll engagements for all public bodies within the scope of their reporting boundaries. This requires departments to report separately on all off-payroll engagements at 31 March for more than £220 per day that last longer than six months, all new engagement or those that reached six months in duration during the year for more than £220 per day that last longer than six months, and any off-payroll engagements of board members and/or senior staff with significant financial responsibility that were entered into in year.

4.32 Departments are also required to include in their accounts a narrative highlighting the reasons for any variance in year-on-year pay multiples. Pay multiples disclosures report the relationship between the remuneration of the highest-paid director in the organisation and the median remuneration of the organisation's workforce. This disclosure was introduced on the basis of a recommendation made by the Hutton Review of Fair Pay in the Public Sector.

Position in new ARA

4.33 HM Treasury shares the view of the Chairs of the Liaison Committee and the Public Accounts Committee that the mandatory reporting of certain information related to remuneration should be retained. The reporting of departmental staff numbers, spend on consultancy and temporary staff, and more recent requirements to report on off-payroll arrangements and pay multiples are both useful from an accountability perspective and have been driving improvements in decision-making within departments.

4.34 HM Treasury is of the view that entities will have the freedom to report on these areas within the "Performance" section of the ARA as they deem necessary. There will, however, be a retention of mandatory reporting on areas related to staff numbers and pay within a redesigned remuneration and staffing section of the "Accountability" section of the ARA. The details for this are included in the Accountability Chapter which follows.

5 Accountability

5.1 The purpose of the Accountability section is to meet key accountability requirements to Parliament stemming from the fact that it is the primary user of the ARA. It is also the section that departments will use to demonstrate compliance with norms and specific codes of good corporate governance. The Accountability section will, therefore, provide information that will enable the user to assess whether the entity:

1. Has the governance structure in place to meet its objectives;
2. Has complied with key rules and requirements related to the remuneration of directors and other staff; and
3. Remained within the voted limits on resource and capital spending set by Parliament, complied with other authorities governing the entity, and met the requirement to produce true and fair financial statements.

5.2 While HM Treasury expects individual departments to take far greater ownership of the content included in the ARA as a whole in the future, there is less scope for this in the Accountability section and there will be a greater number of mandated requirements that departments will have to comply with.

5.3 HM Treasury is proposing that that this section be split into three component parts: a Corporate Governance Report; a Remuneration and Staff Report, and a Parliamentary Accountability and Audit Report.

Corporate Governance Report

5.4 The Corporate Governance Report will provide the user with sufficient information to explain the composition and organisation of the entity's governance structures and how they support the achievement of the entity's objectives. It will take a number of existing requirements under the current framework and bring them together in one logical place within the ARA.

The Directors Report

Current framework

5.5 The annual report is required to contain a directors' report, disclosing the matters required to be disclosed in the directors' report under section 416 of the Companies Act 2006. These are:

- The names of the persons who, at any time during the financial year, were directors of the company;
- The principal activities of the company in the course of the year; and
- A business review containing a fair review of the entity's business and a description of the principal rules and uncertainty facing the entity.

5.6 In central government the term 'directors' and the information required is interpreted as:

- For departments, the ministerial titles and names of all ministers who had responsibility for the department during the year and the name of the person occupying the position of the permanent head of the department;
- For reporting entities other than departments, the names of the chairman and chief executive; and
- For all reporting entities, the composition of the management board (including advisory and non-executive members) having authority or responsibility for directing or controlling the major activities of the entity during the year. This means those who influence the decisions of the entity as a whole rather than the decisions of individual directorates or sections with the reporting entity.

5.7 In addition there are a number of further mandatory requirements that require entities to disclose including:

- An indication of how pension liabilities are treated in the accounts and a reference to the statements of the relevant pension scheme. A cross-reference to the accounting policy note in the accounts and the remuneration report will normally be sufficient;
- Details of company directorships and other significant interests held by Board members which may conflict with their management responsibilities. Where a Register of Interests that is open to the public is maintained, disclosure may be limited to how access to the information in that Register may be obtained;
- Information regarding the disclosure of the remuneration paid to the auditors for any non-audit work undertaken by the auditors as required by Regulations made under Section 494 of the Companies Act 2006;
- Published sickness absence data;
- A statement that the entity has complied with the cost allocation and charging requirements set out in HM Treasury guidance (applies Public Sector Information Holders only); and
- Information on personal data related incidents.

5.8 Although not a requirement of the FReM, the annual Public Expenditure System (PES) guidance related to the ARA also notes that topics that will normally need to be covered (but are not requirements for all departments where there is nothing material to report) include:

- Numbers of Senior Civil Service staff by pay band;
- Performance in responding to correspondence from the public;
- Recruitment practice;
- Health and Safety reporting;
- Publicity and advertising; and
- Details of sponsorship agreements over £5,000.

Position in new ARA

5.9 HM Treasury is proposing to retain the requirement to list the names of the persons who, at any time during the financial year, were directors of the company, in accordance with current public sector interpretations of the Companies Act but remove direct reference to the Act and a number of the other current disclosure requirements where these basic accountability needs of users are met elsewhere. These are:

- The performance section will meet the requirement to disclose the principal activities of the company in the course of the year so there will be no separate requirement for further disclosure;
- Significant risks and uncertainties will not need to be included provided they have been captured in the governance statement or elsewhere in the ARA;
- There will be no separate requirement to provide further details on how pensions liabilities are included in the accounts given this is already disclosed in the remuneration report and the accounts;
- Where the auditor of the entity is determined by statute there will be no need to disclose the remuneration paid to the auditors for any non-audit work;
- Sickness absence data will be included in the new Remuneration and Staff Report;
- Public Sector Information holders will only need to make a statement if they have not complied with cost allocation and charging requirements

5.10 Entities will continue to be required to publish information on personal data related incidents where these have been formerly reported to the information commissioner's office.

5.11 In one area HM Treasury is also proposing that disclosure is enhanced to support transparency. Details of company directorships and other significant interests held by Board members which may conflict with their management responsibilities will now have to be published even if a Register of Interests open to the public is maintained unless that Register is available online. If the Register is held online then a weblink to it must be provided.

5.12 With regard to the PES requirements on additional disclosure, departments will only be required to report on these areas to the extent that there is anything material to report. Departments will, however, be reminded of the commitment under the Revitalising Strategy for Health and Safety in the Workplace to summarise health and safety performance in annual reports.

The Statement of Accounting Officers Responsibilities and the Governance Statement

Current framework

5.13 The Statement of Accounting Officer's Responsibilities provides the user with an explanation of the Accounting Officer's responsibilities for preparing the financial statements. It is prepared to a format set by HM Treasury.

5.14 The Governance Statement provides an explanation of how the Accounting Officer has managed and controlled the resources used in their organisation. It has three core components, namely corporate governance, risk management and for some departments oversight of certain local responsibilities.

5.15 There is no set format but as a minimum it is expected to feature:

- The governance framework of the organisation, including information about the board's committee structure, its attendance records, and the coverage of its work;
- The board's performance, including its assessment of its own effectiveness;
- Highlights of board committee reports, notably by the audit and nomination committees;
- An account of corporate governance, including the board's assessment of its compliance with the Corporate Governance Code, with explanations of any departures;
- Information about the quality of the data used by the board, and why the board finds it acceptable;
- Where relevant (for certain central government departments), an account of how resources made available to certain locally governed organisations are distributed and how the department gains assurance about their satisfactory use; and
- A risk assessment, including the organisation's risk profile, and how it is managed, including, subject to a public interest test:
  1. Any newly identified risk
  2. A record of any ministerial directions given
  3. A summary of any significant lapses of protective security (e.g. data losses).

Position in new ARA

5.16 HM Treasury intends to make no changes to the current requirements to produce a Statement of Accounting Officers Responsibilities and a Governance Statement and would expect these to be produced within the Corporate Governance section of the ARA.

Non-Executive Board Members Report

Current framework

5.17 Every department with an enhanced departmental board is required to include a section in the annual report written by the departmental lead non-executive. The content of this section is at the discretion of the lead non-executive in consultation with other non-executives and board members. As a guide it is expected to include:

- Reflections on departmental progress and performance in relation to the five cross-cutting priorities of Strategic Clarity, Commercial Sense, Talented People, Results Focus and Management Information;
- An outline of the impact the board has had in key areas;
- Any changes to non-executive personnel;
- A description of the names and function of committees of the board; and
- A statement on how the annual evaluation of board effectiveness was conducted and what recommendations will be taken forward.

Position in new ARA

5.18 The non-executive board members report is a key component in demonstrating good governance and as such HM Treasury proposes its retention in the new format ARA. As the content is at the discretion of the lead non-executive further guidelines on content will not be provided and where deemed appropriate by the reporting entity, HM Treasury would support the reports inclusion in either the Accountability section or in the Overview section immediately following the Minister's/Chief Executive's statement.

Remuneration and staff report

5.19 The proposed remuneration and staff report has a number of purposes. It will set out the elements of the entity's remuneration policy for directors, report on how that policy has been implemented and set out the amounts awarded to directors and where relevant the link between performance and remuneration.

5.20 In addition the report will provide further details on remuneration and staff that Parliament and other users see as key to accountability.

Current framework

5.21 Section 421 of the Companies Act 2006 requires the preparation of a Remuneration Report containing certain information about directors' remuneration. Departments and other reporting entities are required to follow the requirements to the extent that they are relevant, with some of the information disclosed being subject to audit and being referred to in the audit opinion.

5.22 HM Treasury currently requires the provision of the following information:

- An explanation of the recruitment principles of the Civil Service;
- The organisation's remuneration policy;
- Details of the remuneration (including salary) and pension entitlements of the Minsters and most senior management of the department – this includes details of what comprises salary, benefits-in-kind and pensions and also tables listing in cash terms the salary, benefits in kind, pension benefits, a single total remuneration figure accrued pensions and cash equivalent transfer values (CETV); and
- Information on exit packages for ministers and senior staff (all exit packages under Civil Service and other compensation schemes are currently disclosed within the financial statements).

5.23 In addition to the Companies Act requirements, HM Treasury also requires entities to disclose:

- Outturn data on staffing which must include numbers of non-payroll staff together with reporting spend on consultancy and on the use of contingent labour;
- Pay multiples disclosures;
- Off-payroll engagements; and
- Use of exit packages.

Position in new ARA

5.24 As noted in the "Performance" chapter, there is a strong desire from Parliamentary Committees to ensure the continuation of detailed mandatory reporting on remuneration. HM Treasury is committed to ensuring value for money for the taxpayer from remuneration in the public sector, particularly at senior levels, and from the use of consultancy, temporary staff and others that are not on payroll. Mandatory reporting in these areas will remain, but with some changes made to current reporting requirements to streamline disclosures. The most significant change will be the bringing together of all of these disclosures within the "Accountability" section under a distinct remuneration and staff report.

5.25 Departments will be required to publish narrative information which details remuneration policy for senior civil servants and ministers along with detailed disclosure on salaries and other forms of remuneration.

5.26 The current requirement to publish CETV figures alongside the single remuneration figures will be retained. Changes to the Companies Act have seen CETV disclosures replaced by the single remuneration figure as this is easier to understand for users but in the public sector context the CETV calculation is seen as promoting accountability. An example of the single total figure of remuneration and CETV disclosures are included in Table 5.A below.

Table 5.A: Single total figure of remuneration and CETV disclosure

	Salary (£'000)		Bonus payments (£'000)		Benefits in kind (to nearest £100)		Pension benefits[1] (£'000)		Total (£'000)	
	2013-14	2012-13	2013-14	2012-13	2013-14	2012-13	2013-14	2012-13	2013-14	2012-13
Permanent Secretary	140-145	130-135	5-10	5-10	4,000	3,900	34	32	185-190	175-180
Director General	110-115	105-110	0-5	0-5	-	-	26	25	140-145	135-140
Director	90-95	85-90	0-5	0-5	-	-	24	22	115-120	110-115

	Accrued pension at pension age at 31/03/2014 (£'000)	Real increase in pension at pension age (£'000)	CETV at 31/03/2014 (£'000)	CETV at 31/03/2013 (£'000)	Real increase in CETV (£'000)
Permanent Secretary	55-60 plus lump sum of 165-170	0-2.5 plus lump sum of 2.5-5	983	940	21
Director General	50-55	0-2.5	680	647	15
Director	15-20 plus lump sum of 55-60	0-2.5 plus lump sum of 2.5-5	332	325	-5

5.27 Departments will be required to continue to disclose outturn data on staffing which must also include numbers of non-payroll staff together with reporting spend on consultancy and on

[1] The value of pension benefits accrued during the year is calculated as (the real increase in pension multiplied by 20) plus (the real increase in any lump sum) less (the contributions made by the individual). The real increases exclude increases due to inflation or any increase or decreases due to a transfer of pension rights.

the use of contingent labour. The disclosure of sickness absence data will also continue under the new structure.

5.28 Disclosure of the relationship between the salary of the most highly paid director in the organisation and the median earnings of the organisations workforce will continue to be required, as will continued to reporting on off-payroll engagements.

5.29 Exit packages will continue to be disclosed individually for those individuals who are named in the remuneration report and in total via the exit packages note highlighted in Table 5.B.

Table 5.B: Exit packages by band

	Core Dept. & Agencies			Group		
Exit package cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band
<£10,000						
£10,000 - £25,000						
£25,000 - £50,000						
£50,000 - £100,000						
£100,000 - £150,000						
£150,000 - £200,000						
Total number of exit packages						
Total cost /£						

5.30 New requirements that are being introduced to require disclosure of special severance payments will also be included within the Remuneration and Staff Report.

Parliamentary Accountability and Audit Report

5.31 The Parliamentary Accountability and Audit Report will bring together the key Parliamentary accountability documents in one place within the ARA. This will include the Statement of Parliamentary Supply and those Common Core Tables that are being retained, The Certificate and Report of the Comptroller and Auditor General to the House of Commons and, if deemed necessary, a number of other disclosures based on Managing Public Money requirements.

Statement of Parliamentary Supply and retained Common Core Tables

Current framework

5.32 The Statement of Parliamentary Supply is a key accountability statement to Parliament. It reports:

1. In the summary of outturn, a comparison of outturn against the Supply Estimate voted by Parliament in respect of each budgetary control limit. The Summary reports net resource expenditure and net capital expenditure for both Departmental Expenditure Limit (DEL) and Departmental Annually Managed Expenditure (AME) budget classifications. In addition it reports the Estimate and outturn for non-voted expenditure (e.g. Consolidated Fund standing services);

2. The net cash requirement (calculated on the same basis as the Voted Supply Estimate), with a comparison of the outturn against the Voted Supply Estimate; and

3. A statement of administration costs incurred, with a comparison to the administration costs limit. Although the administration costs limit is not formally voted by parliament, it is treated as a parliamentary control, and reported on in the same way as voted limits.

5.33 Explanations of variances between the Estimate and outturn are given in a management commentary together with an explanation of any Excess Votes.

Position in new ARA

5.34 Given the importance of the Statement of Parliamentary Supply to accountability, HM Treasury intends to retain the statement but move it away from the core IFRS financial statements and include it within the "Accountability" section. This will ensure it retains its prominence and is positioned next to the certificate and report of the Comptroller and Auditor General to the House of Commons. By making this statement more prominent in its own section distinct from the core IFRS financial statements it is expected that users will find all of these statements more accessible.

5.35 The format of the Statement of Parliamentary Supply will be unchanged except that prior year comparative figures will be removed as these don't provide useful information at such a summarised level and more detailed trend information is included elsewhere in the report. HM Treasury is however proposing a change in the reporting requirements related to the supporting notes. Feedback obtained during the project highlighted that these notes are not used or understood by the majority of users, but that there does remain a small but essential user base that would suffer if they were to be removed from the ARA.

5.36 HM Treasury will therefore still require these notes to be prepared and audited, but entities will be provided with the freedom to either publish them alongside the Statement of Parliamentary Supply or include them in a "Regulatory Reporting" Annex to the main ARA. This freedom to publish alongside the Statement of Parliamentary Supply or in Annex will also be extended to the two remaining Common Core Tables.

Other Parliamentary and Managing Public Money Disclosure Notes

5.37 There are a number of additional disclosures that are also currently included in the ARA based on the requirements of Parliament and/or specific guidance included in Managing Public Money. These are disclosure of remote contingent liabilities, fees and charges, and losses and special payments. Entities will be expected to continue to publish this information in the Accountability section.

The Certificate and Report of the Comptroller and Auditor General to the House of Commons

Current framework

5.38 The Certificate and Report of the Comptroller and Auditor General (C&AG) to the House of Commons is a key accountability document. It certifies that the C&AG has audited the financial statements of the entity, including the Statement of Parliamentary Supply.

5.39 An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error and that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

5.40 In addition the C&AG will read all the financial and non-financial information in the ARA to identify material inconsistencies.

5.41 The C&AG is also required to obtain evidence sufficient to give reasonable assurance that the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals and that those totals have not been exceeded.

5.42 Consequently there are two opinions provided in the certificate. The first is an opinion on regularity and the second is an opinion on whether the financial statements give a true and fair view of the state of the Department's affairs as at 31 March and of the Department's net operating cost for the year then ended; and the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

5.43 The C&AG may wish to make observations on the financial statements n a report which follows the certificate.

Position in new ARA

5.44 HM Treasury has no plans to make any changes to either the scope of audit or the certificate and report of the C&AG. It is expected that the certificate and report will be placed at the end of the Accountability section immediately before the financial statements.

Scope of audit assurance

5.45 It is expected that the following levels of assurance will be provided by the C&AG over each section of the ARA:

- Performance section – read as other information published with the accounts
- Accountability:
    1. Governance and commentary – consistency opinion
    2. Remuneration – audit opinion (true and fair and regularity)
    3. Parliamentary financial information – audit opinion (regularity)
    4. Core Tables – no audit
- Financial statements – audit opinion (true and fair and regularity)

6 Financial Statements

6.1 The final section of the proposed new format ARA will be "Financial Statements". Financial statements that present the entity's financial position and performance in accordance with GAAP are required to be prepared under the Government Resources and Accounts Act 2000. The evidence gathered during Project has highlighted that that a set of financial statements audited by the NAO remains important to users, and that users want to see better integration between the financial information presented and wider entity performance. The Project also provided a significant amount of evidence, however, that that the concept of materiality which is central to the preparation of accounts is poorly understood and inconsistently applied. While as already noted materiality in the public sector is a broad concept encompassing the nature and context of items and economic events as well as their monetary value, this checklist approach has led to the disclosure of significant amounts of irrelevant data and information that is reducing the usefulness of the financial statements for accountability and decision-making.

Financial Statements

Current requirements

6.2 The format of the financial statements is constrained by a requirement to comply with GAAP. In the UK public sector, GAAP has been agreed as EU-adopted International Financial Reporting Standards (IFRS) as adapted and interpreted for the public sector context. HM Treasury is not able to arbitrarily determine by itself what is an acceptable adaptation or interpretation of an accounting standard for central government. Rather all adaptations and interpretations of EU-adopted IFRS have to be taken to the Financial Reporting Advisory Board, an independent advisory body set up in 1996 to provide advice to the Treasury on the financial reporting standards and principles to be applied to departmental resource accounts. While HM Treasury is under no statutory obligation to follow the advice of this body it has always done so. Ultimately were HM Treasury to go against the advice of the Board and set accounting standards that were deemed to result in financial statements that did not show a true and fair view of the reporting entities financial position and performance, the C&AG would qualify his opinion of the accounts of those entities.

6.3 Under IFRS, guidance on the overall structure of the financial statements, including minimum requirements for the primary statements (Statement of Financial Performance, Statement of Financial Position, Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows) and the notes to the financial statements is contained in IAS1 *Presentation of Financial Statements.* The Financial Reporting Manual makes a number of interpretations to this standard and notes required formats for the financial statements for central government entities.

6.4 The most significant interpretation relating to the format of the financial statements is with respect to the Statement of Comprehensive Net Income. In central government this is usually a Statement of Comprehensive Net Expenditure, and the items normally presented on the face of the statement have been changed to create a statement with a primary focus on showing an administration and programme split in expenditure with a breakdown of what those costs comprise focussing only on staff costs and other. The Statement of Cash Flows and the

Statement of Changes in Equity also have interpretations to reflect the fact that central government entities are financed by Parliamentary Supply.

6.5 In addition to preparing their own statutory financial statements, departments are also required to prepare a financial return via a data collection tool for the Whole of Government Accounts (WGA). WGA is a consolidated set of financial statements that covers the entire public sector, and the financial statements follow a more standard IFRS format.

6.6 Since first publication in 2010-11, WGA has attracted considerable attention from the Public Accounts Committee and other users, and is also being actively used by HM Treasury as a key component of spending control and wider financial management. A constraint on the effectiveness of WGA as an accountability and decision-making document is, however, the timeliness of the information presented. Currently it takes over a year following the end of the relevant financial year for the information to be compiled from the underlying accounts, audited and presented. In order to make the document more useful, HM Treasury has been examining ways in which the format of the underlying accounts and the WGA could be aligned to improve coherence and streamline the production process.

Future requirements

6.7 HM Treasury is proposing that financial statements are redesigned as part of this project, with a move away from the current departmental format to one which is more based on the reporting structure used by the private sector and WGA.

6.8 The move to a format more closely aligned with WGA will improve the consistency between entity and macro level financial reporting. As the format of the WGA accounts is on a more common IFRS basis, the financial statements should be more accessible to users. It is also expected that this will reduce burdens on preparers and it will be crucial in enabling the more timely production of WGA in future periods.

6.9 As part of the suggested move to the WGA format, HM Treasury will move from the current three column approach of core department, department and agencies and departmental group to a two column approach of department and agencies and departmental group. Indication from users and preparers is that the current format is confusing, and does not reflect the reality of how entities are financially managed.

6.10 Financial reporting guidelines will make clear that notes to the accounts will only be required for material balances. While entities are able to invoke materiality to not disclose at present, in practice many err on the side of caution and will include notes in order to comply with the letter rather than the spirit of the reporting requirements. Removing non-material balances, with a recognition that materiality is not restricted to just monetary value, will significantly streamline and simplify the accounts, ensuring that the user is only presented with and can focus on relevant and material information. There will be no diminution of audit scope or depth, only the presentation of the information will be affected.

Detailed explanation of future financial statements

Statement of Consolidated Net Expenditure

6.11 The major change in moving to a WGA format for the financial statements will be the impact on the Statement of Consolidated Net Expenditure. This primary statement for departments currently has a three column format that separately presents expenditure and income for the core department, department and agencies and departmental group. The presentation of this income and expenditure is split between administration costs and programme expenditure as illustrated in Table 6.A.

Table 6.A: Statement of Comprehensive Net Expenditure (current format)

£000	201X-1Y			201W-1X		
	Core Dept	Core Dept. & Agencies	Group	Core Dept	Core Dept. & Agencies	Group
Administration costs:						
Staff costs						
Other costs						
Income						
Programme expenditure:						
Staff costs						
Other costs						
Income						
Net operating costs						
Total expenditure						
Total income						
Net operating costs						
Other comprehensive net expenditure						
Items which will not be reclassified to net operating costs:						
- Net gain/loss on revaluation of property, plant and equipment						
- Net gain/loss on revaluation of intangible assets						
- Actuarial gain/loss on pension scheme liabilities						
Items which may be reclassified to net operating costs:						
- Net gain/loss on revaluation of investments						
Comprehensive net expenditure for the year						

6.12 The WGA format of the Statement of Consolidated Net Expenditure is the Statement of Revenue and Expenditure and follows a more traditional IFRS structure. It gives a more detailed breakdown of the nature of income and expenditure on the face of the statement.

Table 6.B: WGA Statement of Consolidated Net Expenditure

	201y £bn	201x £bn
Taxation revenue from direct taxes		
Taxation revenue from indirect taxes		
Taxation revenue from local taxes		
Revenue from sales of goods and services		
Other revenue		
Total revenue		
Social security benefits		
Staff costs		
Pension past service costs and indexation adjustment		
Purchase of goods and services		
Cost of grants and subsidies		
Depreciation and impairment charges		
Provision expense		
Other expenditure		
Total expenditure		
Net expenditure before financing costs		
Investment revenue		
Finance costs		
Interest on pension scheme liabilities		
Expected return on funding pension schemes' assets		
Net financing costs		
Revaluation of financial assets and liabilities		
Net loss on disposal of assets		
Net expenditure for the year		
Other comprehensive income		
Net gain/loss on revaluation of property, plant and equipment		
Net gain/loss on revaluation of available for sale financial assets		
Actuarial gain/loss on pension liabilities		
Net other comprehensive expenditure/(income)		
Total comprehensive expenditure/(income)		

6.13 While there are a number of lines in the standard format that will not be directly relevant to all individual government departments (e.g. taxation income and social security expenditure) in general the breakdown of income and expenditure provides a more relevant analysis of its nature without requiring the user to go immediately to the detail of the supporting notes.

6.14 There are a number of areas where the move to a WGA structure requires changes elsewhere to ensure that there is no loss of useful financial information. Evidence obtained during the project has highlighted that some users still value the disclosure of spend for administration. While this will disappear from the main statements, transparency over the split between administration and programme expenditure and income will remain through the retention of the administration control total and the retained Common Core Table providing an analysis of administration budgets.

6.15 A further area where a change is necessary to prevent the loss of financial information under the WGA format relates to expenditure and income for the core department. HM Treasury proposes a move to a two column approach of department and agencies and departmental group. This better reflects the financial management relationship between the entities.

6.16 HM Treasury is therefore proposing a change in format for the Statement of Comprehensive Net Expenditure from the 2015-16 financial year, as illustrated in Table 6.C.

Table 6.C: Statement of Comprehensive Net Expenditure (revised format)

		201X-1Y		201Y-1W
	Core Dept. & Agencies	Group	Core Dept. & Agencies	Group
	£000	£000	£000	£000
Income from sale of goods and services				
Other operating income				
Total operating income				
Staff costs				
Purchase of goods and services				
Depreciation and impairment charges				
Provision expense				
Other operating expenditure				
Total operating expenditure				
Net operating expenditure				
Finance income				
Finance expense				
Borrowing costs on provisions				
Net expenditure for the year				
Other comprehensive net expenditure				
Items which will not be reclassified to net operating costs:				
- Net gain/loss on revaluation of property, plant and equipment				
- Net gain/loss on revaluation of intangible assets				
- Actuarial gain/loss on pension scheme liabilities				
Items which may be reclassified to net operating costs:				
- Net gain/loss on revaluation of investments				
Comprehensive net expenditure for the year				

Statement of Financial Position

6.17 IFRS requires entities to prepare a Statement of Financial Position and provides guidance on the minimum presentation required on the face of the Statement of Financial Position. The Financial Reporting Manual makes a minor interpretation at present to provide guidance on the order of presentation of certain items and to require a three column approach. WGA has an IFRS compliant Statement of Financial Position which has only one column as there is no parent entity but which follows the same presentational guidance given in the Financial Reporting Manual.

6.18 HM Treasury is proposing that the minimal interpretation is retained in the Financial Reporting Manual, but with a change to require a two rather than three column approach consistent with the Statement of Comprehensive Net Expenditure. This will provide high level consistency and comparability across departments and WGA while giving entities flexibility to provide additional disclosures as deemed necessary. Entities would still be responsible for adding material sub-headings as necessary.

Table 6.D: Statement of Financial Position (revised format)

		201X-1Y		201Y-1W
	Core Dept. and Agencies	Group	Core Dept. and Agencies	Group
	£000	£000	£000	£000
Non-current assets:				
Property, plant & equipment				
Intangible assets				
Financial assets				
Total non-current assets				
Current assets				
Assets classified as held for sale				
Inventories				
Trade & other receivables				
Other current assets				
Financial assets				
Cash & cash equivalents				
Total current assets				
Total assets				
Current liabilities				
Trade and other payables				
Provisions				
Other liabilities				
Total current liabilities				
Total assets less current liabilities				
Non-current liabilities				
Provisions				
Other payables				
Financial liabilities				
Total non-current liabilities				
Total assets less total liabilities				
Taxpayers' equity and other reserves:				
General Fund				
Revaluation Reserve				
Total equity				

Statement of Changes in Taxpayers' Equity

6.19 IFRS requires entities to prepare a Statement of Changes in Equity. IFRS requirements are interpreted for the public sector context in the FReM such that all reporting entities are required to present a Statement of Changes in Taxpayer's Equity. Entities funded from Supply or grant-in-aid need to adapt the format to disclose transactions with the General Fund. The FReM does not mandate a required format, but notes that HM Treasury provides an illustrative example. The illustrative example contains a significant amount of extraneous detail that does not assist the user.

6.20 The WGA format of the Statement of Changes in Taxpayer's Equity is closer to a standard IFRS format, but does not take into consideration the nature of the Supply process by which government departments are financed. HM Treasury is therefore proposing a change from the existing illustrative statement which has unnecessary complexity while retaining those elements that are essential to reflect the supply funded nature of entities.

6.21 The new statement will retain the current columns, which suggest entities should split reserves between a general fund and a revaluation reserve to show taxpayers equity and separately disclose charitable funds where relevant in order to provide a total reserve. The line disclosures will comprise four required headings:

1. Parliamentary funding;
2. Comprehensive net expenditure for the year;
3. Revaluation gains and losses; and
4. Transfers between reserves.

6.22 These more closely match the WGA line headings, and entities will be given the freedom to add additional headings as necessary for their individual circumstances.

Table 6.E: Statement of Changes in Taxpayers' Equity (revised format)

	General Fund	Revaluation Reserve	Taxpayers' equity
	£000	£000	£000
Balance at 31 March 201X			
Net Parliamentary Funding			
Comprehensive net expenditure for the year			
Revaluation gains and losses			
Transfers between reserves			
Balance at 31 March 201Y			

Statement of Cash Flows

6.23 IFRS sets out the requirements for the format of the Statement of Cash Flows. The FReM specifies a number of additional requirements. These are:

- Entities financed by Supply issued from the Consolidated Fund should include amounts drawn down from the Consolidated Fund and paid to the Consolidated Fund on a gross basis in the financing section;
- In reconciling the operating cost to operating cash flows, entities should exclude movements in debtors and creditors relating to items that do not pass through the

Statement of Comprehensive Net Expenditure (balances with the Consolidated Fund; and debtors and creditors linked to loans from the National Loans Fund, capital expenditure, finance leases and PFI contracts);

- In analysing capital expenditure and financial investment, entities should adjust for debtors and creditors relating to capital expenditure and those relating to loans issued to or repaid by other bodies; and
- In analysing financing, entities should adjust for debtors and creditors relating to the capital expenditure in respect of finance leases and on-balance sheet PFI contracts.

6.24 HM Treasury intends to retain the requirements noted currently in the FReM but to amend the illustrative statement to ensure that the financing activities section more closely aligns with WGA. At present the illustrative statements suggests entries against a large number of individual lines related to financing from the Consolidated Fund, the National Insurance Fund, the Contingencies Fund and the National Loans Fund. A number of these lines will be amalgamated to show only net flows. Additional lines not currently shown related to finance costs and revenues will also be included.

Table 6.F: Statement of Cash Flows (revised format)

		201X-1Y		201W-1X
	Core Dept. & Agencies	Group	Core Dept. & Agencies	Group
	£000	£000	£000	£000
Cash flows from operating activities				
Net operating cost				
Adjustments for non-cash transactions				
(Increase)/Decrease in trade and other receivables				
(Increase)/Decrease in inventories				
Increase/(Decrease) in trade and other payables				
Use of provisions				
Net cash outflow from operating activities				
Cash flows from investing activities				
Purchase of property, plant and equipment				
Purchase of intangible assets				
Proceeds of disposal of property, plant and equipment				
Proceeds of disposal of intangibles				
Net cash outflow from investing activities				
Cash flows from financing activities				
Net financing from the Consolidated Fund				

Net financing from the National Insurance Fund	
Net financing from the Contingencies Fund and National Loans Fund	
Capital element of payments in respect of finance leases and on-balance sheet (SoFP) PFI contracts	
Net financing	
Net increase/(decrease) in cash and cash equivalents in the period	
Cash and cash equivalents at the beginning of the period	
Cash and cash equivalents at the end of the period	

Notes to the financial statements

6.25 The notes to the financial statements provide additional detail to users on the accounting policies of the entity and the numbers included in the core financial statements. Notes should only be included where additional information is material, i.e. where its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. In the public sector context materiality can be by nature and context as well as in value, and the decisions of users can be of a non economic nature.

6.26 HM Treasury does not require entities to produce notes where the information is immaterial to the user and the Financial Reporting Manual clearly notes that disclosures should be limited to those necessary for an understanding of the entity's circumstances. Nevertheless there has been a tendency for departments to rigidly follow disclosure templates even where the information provided is not material.

6.27 HM Treasury has been working with departments and the National Audit Office to encourage a "red-pen approach" to the financial statements where immaterial disclosures are removed. As part of the new ARA further emphasis will be placed on materiality and the requirement only to include information additional to the financial statements where it is material, be that by value, nature or context.

7 Other reporting entities and requirements

7.1 The main focus of HM Treasury during the Project to date has been on the reporting requirements of government departmental groups financed by Parliamentary Supply. There are a number of other types of entity in central government, however, that HM Treasury sets reporting requirements for, including public sector pension schemes, agencies and trading funds. HM Treasury also sets reporting requirements for Trust Statements, which detail the collection and allocation of revenue collected by entities on behalf of the Consolidated Fund.

7.2 The overall reporting vision presented here is applicable to all statutory reporting in central government and HM Treasury will be examining the illustrative financial statements related to entities other than departments and making amendments as necessary.

7.3 This work will be undertaken throughout the remainder of 2014. This will allow due process consultation to be undertaken in time for the introduction of changes for the 2015-16 financial year.

8 Next steps

8.1 This paper sets out HM Treasury's proposals for a new format ARA that will meet the accountability and decision making needs of users. Feedback on the proposals is requested from Parliamentary users of the ARA of central government reporting entities by 3 October 2014 so that the necessary changes can be made before the final proposals for the format of the 2015-16 ARA can be taken to the Financial Reporting Advisory Board for comment and approval.

8.2 In addition to users, preparers are also being consulted on these proposals via an exposure draft of the 2015-16 Financial Reporting Manual. Preparers will also have until 3 October 2014 to comment.

8.3 While consultation is being undertaken, HM Treasury will, as noted, be undertaking further work to apply the principles to the guidance applicable to other reporting entities. Subject to user and preparer comments, and in particular a positive response from users to the proposals, the new format ARA will be introduced from the 2015-16 financial year.

A Overview of existing requirements and expected place in new structure

A.1 The table below provides an overview of existing reporting requirements and their expected place in the new structure.

Requirement	Current reporting	Future position
Common Core Tables	The Common Core Tables aim to provide Parliament and other users with core data in a common format across central government. They were rationalised and simplified in 2010-11 as a result of the Clear Line of Sight reforms and currently are comprised of 8 tables providing public spending information based on estimates subheads, regional analysis, and additional staff and admin disclosures	Country and regional analysis data provided in the Tables 6 to 8 is available in the HM Treasury Public Expenditure Statistical Analyses (PESA). For the other Tables, based on feedback from users HM Treasury is proposing the removal of all but two of the Common Core Tables. These are Table 1 - Public Spending which provides a summary of departmental net expenditure using the same headings as voted within the Estimate and as such gives transparency of spend against the Estimate, and Table 4 Administration Budgets which ensures that there is continued visibility around administration spend even under a proposed financial statement format which removes this compulsory split.
Business Plan indicators and Quarterly Data Summary	Main departments are required to publish a Business Plan as part of the transparency framework. These set out the department's priorities, structural reform plans, expenditure and its contribution to transparency. The Business Plan also sets out the department's input and impact indicators and it is against the Business Plan priorities, structural reform plans and indicators that currently	Under the proposed framework, reporting on performance against the Business Plan, the Business Plan input and impact indicators and spend data from the Quarterly Data Summary will be included in the performance analysis to the extent that the department measures its performance against these areas. The overall performance regime for departments is dictated by the coalition agreement so HM Treasury expects the Business

Requirement	Current reporting	Future position
	department's must publish their performance against. Outturn data for current and prior year against each of the indicators in the business plan must be included, however, along with overall headline spend data from the Quarterly Data Summary. The performance report is also required to include narrative to support understanding of the data provided.	Plan priorities and the input and impact indicators to remain a feature of the performance analysis in some format. Continued transparency over these areas in the current reporting format will be achieved through continued reporting on the Number 10: Transparency website and the Government Interrogating Spending Tool website.
Better Regulation	Reporting on Better Regulation requires departments to describe how they have applied the Government's Principles of Regulation (both domestic and EU). This needs to be supported by examples of how the department is delivering on the Government's commitment to producing less regulation, better regulation and regulations as a last resort, as well as any action taken on mitigating the impact of new regulations on small businesses and micros. Departments are also required to currently offer information about their progress relating to both domestics and European legislation	Under the proposed framework, performance on Better Regulation will be included in the ARA to the extent that this is a key performance measure that the department measures itself against. This will result in a more proportionate approach that is better tailored to the different profiles of regulatory activity of different departments and works with the new statutory reporting framework for regulatory burdens proposed in the Small Business, Enterprise and Employment Bill. Possible recommendations from the current Regulatory Reform Committee enquiry will also have an impact on reporting, be it via the ARA or another mechanism.
Sustainability reporting and reporting on sustainable development, adapting to climate change and rural proofing	In addition to the HM Treasury mandated sustainability report, there are further reporting requirements on sustainable development, adapting to climate change and rural proofing that departments must comply with. Where not already including in other reporting, departments are also required to note how sustainable development is embedded in overall governance, decision making and assurance processes and how staff learning and	The current reporting framework is onerous and leads to departments focussing on meeting disclosure requirements rather than embedding sustainable development. Under the proposed framework, performance on sustainable development will be included in the ARA to the extent that it is either a key performance measure that the department measures itself against and/or it interacts with other performance measures. There will, however,

Requirement	Current reporting	Future position
	participation is supported.	also be a minimum requirement set for reporting on certain high-level indicators that form the basis of the Greening Government Commitments (GGC). This will reflect compulsory requirements for certain private sector entities to now report on Greenhouse Gas Emissions. The GGC relate to Greenhouse gas emissions, waste, water consumption and procurement.
Complaints to Parliamentary Ombudsman	In response to a recommendation made by the Public Administration Select Committee, departments are currently required to publish information on complaints to the Parliamentary Ombudsman in their ARA.	HM Treasury proposes the retention of mandatory reporting on complaints to the Parliamentary Ombudsman but envisages that this reporting will be better placed in future in the new Accountability section of the ARA.
Staff numbers, pay multiples, off-payroll arrangements and spend on consultancy and temporary staff	There are currently a number of mandatory reporting requirements related to staff numbers, remuneration, and spend on consultancy, temporary staff and off-payroll arrangements.	HM Treasury shares the view of the Chairs of the Liaison Committee and the Public Accounts Committees that the mandatory reporting of certain information related to remuneration be retained. HM Treasury is of the view that entities will have the freedom to report on these areas within the Performance section of the ARA as they deem necessary. There will, however, be a retention of mandatory reporting on areas related to staff numbers and pay within a redesigned remuneration and staffing section of the Accountability section of the ARA
Lead Non-Executive's Report	Every department with an enhanced departmental board is required to include a section in the annual report written by the departmental lead non-executive. The content of this section is at the discretion of the	The non-executive board members report is a key component in demonstrating good governance and as such HM Treasury proposes its retention in the new format ARA. As the content is at the

Requirement	Current reporting	Future position
	lead non-executive in consultation with other non-executives and board members	discretion of the lead non-executive further guidelines on content will not be provided and where deemed appropriate by the reporting entity, HM Treasury would support the reports inclusion in either the Accountability section or in the Overview section immediately following the Minister's/Chief Executive's statement.
Losses and special payments	Entities are required to include a statement of losses, special and other payments. In the case of reporting on special payments which are severance payments, the detail to be disclosed should include the number of special severance payments made, the total amount paid out, and the maximum (highest), minimum (lowest) and median values of payments made.	If an entity has made losses or made special payments or gifts in excess of £300,000 then they will be required to include a note providing details in the Accountability section.
Fees and charges	Entities are required to provide in their financial statements an analysis of the services for which a fee is charged,	This requirement to disclose in the Accountability section will be maintained.
Remote contingent liabilities	Entities are required to provide information about contingent liabilities not required to be disclosed under IAS 37 Provisions, Contingent Liabilities and Contingent Assets because the likelihood of a transfer of economic benefits is considered too remote, but should be disclosed for parliamentary reporting and accountability purposes	This requirement will be maintained and will be part of the new Accountability section of the ARA.
Statement of Accounting	The Accounting Officer or Chief Executive of each reporting	This requirement will be maintained and will be part of

Requirement	Current reporting	Future position
Officer's Responsibility	entity and reportable activity covered by the requirements of this Manual should explain his or her responsibility for preparing the financial statements in a statement that should be positioned after the Annual Report and before the governance statement.	the new Accountability section of the ARA.
Governance Statement	All reporting entities covered by the requirements of this Manual shall prepare a governance statement.	This requirement will be maintained and will be part of the new Accountability section of the ARA.
Statement of Parliamentary Supply	The Statement of Parliamentary Supply is a key accountability statement to Parliament, showing Departmental group performance against control totals.	Given the importance of the Statement of Parliamentary Supply to accountability, HM Treasury intends to retain the statement but move it away from the core IFRS financial statements and include it within the Accountability section. This will ensure it retains its prominence and is positioned next to the certificate and report of the Comptroller and Auditor General to the House of Commons. By making this statement more prominent in its own section distinct from the core IFRS financial statements it is expected that users will find all of these statements more accessible.
IFRS-based financial statements	Financial statements that present the entity's financial position and performance in accordance with IFRS are required to be prepared under the Government Resources and Accounts Act 2000 with the specific format mandated to a large extent by the Financial Reporting Manual	HM Treasury is proposing that financial statements are redesigned to be closer to the reporting structure used by the private sector and WGA. This will improve the consistency between entity and macro level financial reporting and ensure that a more common IFRS basis is followed increasing accessibility. As part of this HM Treasury will move from the current three column approach

Requirement	Current reporting	Future position
		of core department, department and agencies and departmental group to a two column approach of department and agencies and departmental group. Financial reporting guidelines will also make clear that notes to the accounts will only be required for material balances.

B Example of ARA under new structure

B.1 This annex provides an example of how an ARA would be structured under the new structure. It does not purport to be a complete example of an ARA, but is intended to assist users to assist whether the proposed changes will better meet their needs.

1 Performance

Overview

The purpose of this section is to give the user a short summary that provides them with sufficient information to understand the organisation, its purpose, the key risks to the achievement of its objectives and how it has performed during the year.

Minister/Chief Executive statement

This statement gives the most senior individual in the organisation an opportunity to present the report and give their perspective on the performance of the organisation over the period.

Example: Department for Culture, Media and Sport (DCMS)

The foreword to DCMS's mid-year report summarises the Department's significant milestones, the strategic importance of the Department's work and its future plans. It is an accessible summary written from the perspective of the Permanent Secretary.

In the first six months of 2013-14 the Department has achieved significant milestones. The announcement of the City of Culture 2017 begins Hull's journey to realising benefits like those we have seen in Derry-Londonderry this year. During a successful visit to China, the Secretary of State signed a cultural agreement between the UK and China and recently launched an initiative to make Britain the most welcoming destination in Europe for Chinese visitors. In Government we are leading plans to commemorate the centenary of the First World War. We have secured a settlement for arts organisations, announced plans to reform English Heritage, supported by £80m of Government investment and secured an important package of operational and financial freedoms for our National Museums and Galleries as part of the Spending Round. And we also engaged in cultural diplomacy, working with the Foreign and Commonwealth Office, British Council, UK Trade and Investment (UKTI), VisitBritain and partners in other countries to promote the excellence of our arts and culture and attract tourist and business visitors.

The publication of the UK Broadband Impact study showed that the UK will benefit by £20 for every £1 we are investing in broadband. We made good progress on the Gambling Bill that will require all remote gambling operators, such as gambling websites and betting call centres, to obtain a Gambling Commission licence if they want to offer their services to British customers, regardless of the country in which the operator is based. We published the Cross Party Royal Charter on self-regulation of the press and the Women and the Economy Action Plan. The Marriage (Same Sex Couples) Act 2013 received Royal Assent. And the successful Remembrance Sunday Ceremony at the Cenotaph demonstrated our continuing ability to deliver operationally.

We have continued to build on the legacy of the 2012 Olympic and Paralympic Games. The London Anniversary Games and IPC Para-Athletics Grand Prix Final, held on the Olympic Park to celebrate a year on, once again saw elite athletes gracing the Olympic Stadium. We again showed the world that the UK can run major events – from the ICC Champions Trophy in cricket to the Rugby League World Cup, and other world-class events in rowing, canoeing, netball, hockey and triathlon.

The creative industries are a great success story for the UK and we have continued our support through funding and promoting the importance of the sector. The latest statistics show that the creative industries are going from strength to strength, outperforming other sectors of our economy, with the core sector (excluding those working in creative jobs in non-creative industries) worth £71.4 billion in 2012, (5.2% of the UK economy), accounting for 1.68 million jobs that year (5.6% of the total number of UK jobs).

The Department has also made significant progress in meeting its corporate obligations. We laid our unqualified Group Annual Report & Accounts in November, an important undertaking covering 43 Arms-Length Bodies (ALBs) as well as the core Department. The Department's people engagement index rose from 45% to 51%.

Looking forward, we have a major and exciting programme of work ahead with a strong focus on supporting the emerging economic growth by investing in communications infrastructure, capitalising on the value of Britain's arts, culture and creative industries, increasing tourism at home and broad, improving the competitiveness of the creative economy, commemorating historic events and enabling people to realise their full potential.

Internally, we are strengthening our governance arrangements to formalise arrangements and reflect a greater focus on engagement with our ALBs, structural and senior staff changes. We will continue to work through the detailed implications of the Autumn Statement for DCMS and the ALBs that we fund. And, because an engaged, skilled and capable workforce is key to delivering our significant work programme, I committed to further improvement in our people engagement score.

Source: Department for Culture, Media and Sport 2013-14 Mid-Year Report

Statement of the purpose and activities

This is a clear statement of the purpose of the organisation and its key activities.

Example: Ministry of justice (MoJ)

MoJ's annual report is introduced with a clear statement of the department's vision and strategy, and of its key responsibilities.

Our vision and strategy

The Ministry of Justice (MoJ or the Department) delivers some of the most fundamental services any state owes its citizens. Our work transforms lives, raising aspirations and helps people and businesses to resolve disputes quickly. We are committed to making sure that offenders are properly punished, to prioritising the needs of victims, and to supporting those who need our help. Our vision is to deliver an efficient, fair and effective justice system, improving the services and outcomes we deliver for the public at the same time as reducing their cost to the taxpayer. We are also committed to ensuring a legal and rights framework that is clear and proportionate and upholds the rule of law, and to secure the UK's interests in these areas on the European and wider international stage.

Our work

MoJ has responsibility for a number of different parts of the justice system – the courts, tribunals, prisons, legal services, youth justice, probation services and attendance centres. Our work spans criminal, civil, family and administrative justice and we are also responsible for making new laws and safeguarding human rights. We work in partnership with other government departments and agencies to serve the public, improve the criminal justice system and support victims of crime.

Source: Ministry of Justice 2013-14 Annual Report and Accounts

Key issues

Entities have generally been poor at identifying and reporting on risks and other issues that could affect the delivery of objectives. This section requires entities to address this key user need.

Example: Department for Business, Innovation and Skills

In their mid-year report, BIS identified existing weaknesses and future challenges against each of their objectives. Challenges included securing adequate resourcing and improving programmes to increase skills by involving employers in their design and delivery. These challenges would be summarised and brought together in the overview section.

Knowledge and Innovation – *Promote excellent universities and research and increased business innovation*

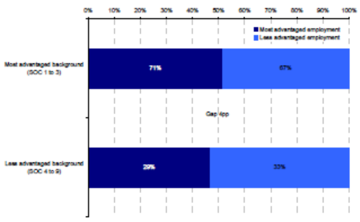
With significant BIS support the UK achieved an agreement with EU partners on the delegation framework for the €70 billion Horizon 2020 budget which focuses on excellence in research and is therefore favourable to UK interests. The £300 million distributed through the Research Partnership Investment Fund (RPIF) leveraged in excess of £1 billion from business and charities for investment in R&D collaborations.

Working in partnership with the Natural Environment Research Council (NERC), we delivered the Royal Research Ship Discovery; a state-of-the-art platform for world-leading oceanographic research, on time, within budget and to a high standard. The Technology Strategy Board continues to encourage innovative UK businesses; independent research shows that every £1 invested by the TSB returns £7 to the UK economy. We now face the challenge of adequately resourcing the TSB to meet its expanding the role.

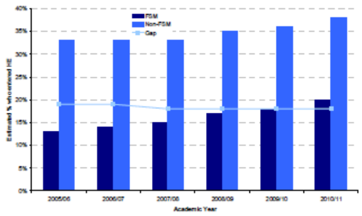
In 2013, demand for higher education returned to near record levels. Application rates for young, disadvantaged groups have risen to an all time high in England and more students than ever before are being successful in a securing place at their first choice institution. We now face the challenge of meeting demand while continuing to manage the HE budget.

Latest Indicators

The gap between young graduates from professional backgrounds who go on to a "graduate job" 6 months after graduating and young graduates from non-professional backgrounds (2011/12 cohort)



Estimated percentage of maintained school pupils aged 15 by Free School Meal status who entered HE by age 19



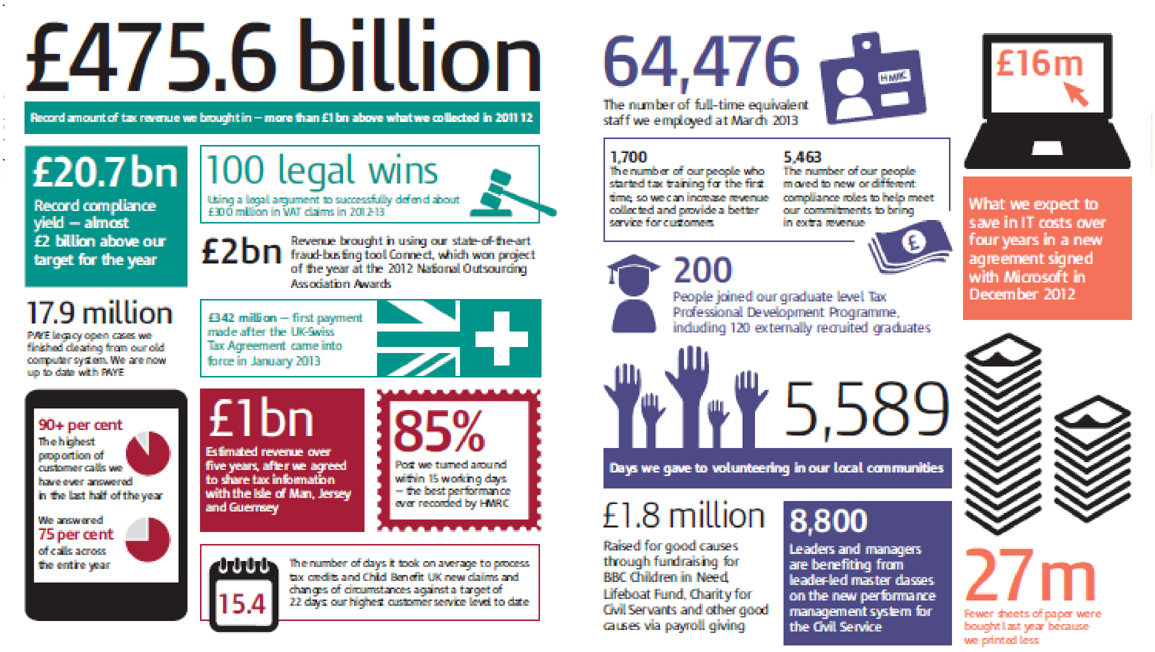
Source: Department for Business, Innovation and Skills 2013-14 Mid-Year Report

Performance summary

The performance summary will effectively be an executive summary of the performance analysis section which will follow the Overview. HM Treasury expects this to be a lively and visual presentation with a focus on trend information.

Example: HMRC

HMRC's annual report includes a double-page snapshot of performance information. In-year performance information would be given context through the inclusion of trend information.



Source: HMRC 2012-13 Annual report and Accounts

Performance analysis

This section will be a more detailed performance summary providing a clear indication of how the entity measures its performance, allowing for the presentation of a more detailed integrated performance analysis.

How performance is measured

The overall purpose of the performance section is to provide entities with the freedom to report on what they see as their important performance measures in a manner that best reflects how performance is managed while meeting users' needs. This section will provide the user with an understanding of what the entity sees as its key performance measures and how it checks performance against those measures.

Performance analysis

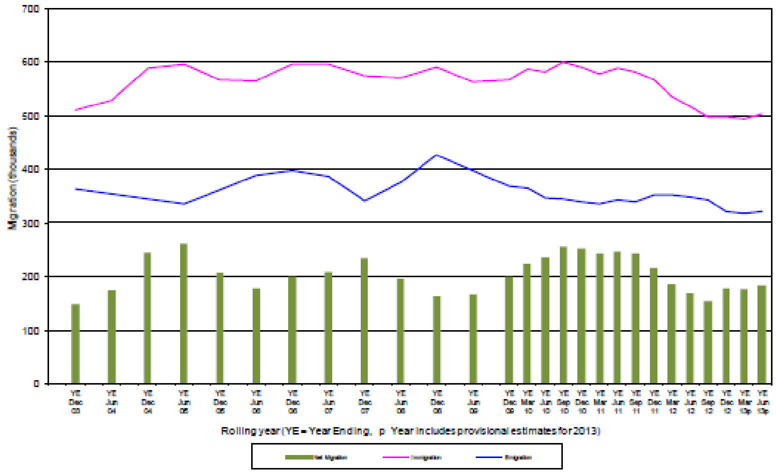
The performance analysis should provide detail and analysis of performance against the key performance measures that are important to the entity. It is expected that entities will provide a lively and visual presentation, drawing together information from other parts of the annual report and accounts and also providing longer term trend analysis where appropriate. The overall performance regime for departments is currently dictated by the coalition agreement and therefore the Business Plan priorities and the input and impact indicators to remain a feature of the performance analysis in some format.

Example: Home Office

Key performance indicator

The Home Office Business Plan includes a number of input and impact indicators to help the public assess the impact of policies and reforms. This data is published regularly on the Home Office website. For *Reduce immigration*, the indicator is the measure of net migration to the UK.

Long-Term International Migration into and out of the United Kingdom
Year to end December 2003 to Year to end June 2013



- At 182,000 net migration (this is the latest data for the year ending June 2013) is down nearly a third (-29%) since its peak in September 2010 (255,000). Non-EU net migration is down 36% over the same time period.
- Balanced reductions with increases in important categories including university sponsored students visa applications (+7%, or + 11,385 to 167,262) and skilled workers visas issued (+14%, or +9,271 to 76,951). These data are for the year ending September 2013.
- Increases in EU migration and reduction in emigration has resulted in a small increase in net migration (to 182,000 (year ending June 2013) from +167,000 in previous 12 months (year ending June 2012)). We will continue to review performance and explore what more can be done to further reduce net migration levels.

The Home Office explain the use of key performance indicators in allowing the public to assess the impact of policies and reforms.

In this case, the performance indicator of net migration is split into its component parts of immigration and emigration to show how they each contribute to overall performance.

Performance indicators should also be supported with narrative information to aid a user.

Source: Home Office 2013-14 Mid-Year Report

Better regulation

Performance on Better Regulation will be included in this section to the extent that this is a key performance measure that the department measures itself against.

Sustainable development

Performance on sustainable development will be included in this section as either a key performance measure that the department measures itself against and/or in the manner in which sustainable development interacts with other performance measures. There will, however, also be a minimum requirement set for reporting on certain high-level indicators that form the basis of the Greening Government Commitments. This will align with compulsory requirements for certain private sector entities to now report on Greenhouse Gas Emissions but will have a wider scope to include greenhouse gas emissions, waste, water consumption and procurement.

Example: HMRC

Greening Government commitment	2015 Government reduction target	Position at 31 March 2013
Greenhouse gas emissions	25%	25%
Waste	25%	44%
Water	$6m^3$ per FTE	$11m^3$
Paper	10%*	30%
Domestic flights	20%	50%

*Target relates to 2011-12 only

HMRC provide a simple, high-level summary of performance against the Greening Government Commitments in their annual report. This is supplemented by a range of financial and non-financial performance indicators for greenhouse gas emissions, waste, water, copier paper and domestic flights.

Source: HMRC 2012-13 Annual Report and Accounts

2 Accountability

The purpose of this section is to meet key accountability requirements to Parliament stemming from the fact that it is the primary user of the annual report and accounts. It is also the section that departments will use to demonstrate compliance with norms and specific codes of good corporate governance.

Corporate Governance Report

The Directors' Report

The directors' report will list the names of the persons who, at any time during the financial year, were directors of the company, in accordance with current public sector interpretations of the Companies Act but remove direct reference to the Act.

It will include details of company directorships and other significant interests held by Board members which may conflict with their management responsibilities must be published, even if a Register of Interests open to the public is maintained, unless that Register is available online. If the Register is held online then a weblink to it must be provided.

It will include disclosures on the following, where material:

- Performance in responding to correspondence from the public;
- Health and Safety reporting;
- Publicity and advertising; and
- Details of sponsorship agreements over £5,000.

The Statement of Accounting Officer's Responsibilities

This statement provides the user with an explanation of the Accounting Officer's responsibilities for preparing the financial statements. It is prepared to a format set by HM Treasury.

The Governance Statement

The Governance Statement provides an explanation of how the Accounting Officer has managed and controlled the resources used in their organisation. It has three core components, namely corporate governance, risk management and for some departments oversight of certain local responsibilities. There is no set format but as a minimum it is expected to feature:

- the governance framework of the organisation, including information about the board's committee structure, its attendance records, and the coverage of its work;
- the board's performance, including its assessment of its own effectiveness;
- highlights of board committee reports, notably by the audit and nomination committees;
- an account of corporate governance, including the board's assessment of its compliance with the Corporate Governance Code, with explanations of any departures;
- information about the quality of the data used by the board, and why the board finds it acceptable;

- where relevant (for certain central government departments), an account of how resources made available to certain locally governed organisations are distributed and how the department gains assurance about their satisfactory use; and
- a risk assessment, including the organisation's risk profile, and how it is managed, including, subject to a public interest test:
  1. Any newly identified risk;
  2. A record of any ministerial directions given; and
  3. A summary of any significant lapses of protective security (e.g. data losses).

Complaints to Parliamentary Ombudsman

Departments will publish information on complaints to the Parliamentary Ombudsman. This includes the number of complaints accepted by the Ombudsman for investigation in year, the number of investigations reported on and the percentage of those reports where the complaint was upheld in full, in part, or not upheld and the number of Ombudsman recommendations complied with and not complied with. Departments are also expected to provide context by providing information on complaints more widely.

Non-Executive Board Members Report

The content of this section is at the discretion of the lead non-executive in consultation with other non-executives and board members. As a guide it is expected to include:

- reflections on departmental progress and performance in relation to the five cross-cutting priorities of Strategic Clarity, Commercial Sense, Talented People, Results Focus and Management Information;
- an outline of the impact the board has had in key areas;
- any changes to non-executive personnel;
- a description of the names and function of committees of the board; and
- a statement on how the annual evaluation of board effectiveness was conducted and what recommendations will be taken forward.

HM Treasury would support the reports inclusion in either the "Accountability" section or in the "Overview" section immediately following the Minister's/Chief Executive's statement.

Remuneration and staff report

The remuneration and staff report has a number of purposes. It sets out the elements of the department's remuneration policy for directors, reports on how that policy has been implemented and sets out the amounts awarded to directors and where relevant the link between performance and remuneration.

In addition the report provides further details on remuneration and staff that Parliament and other users see as key to accountability.

Remuneration policy

Departments will be required to explain the recruitment principles of the civil service and the organisation's remuneration policy, including the role of the Review Body on Senior Salaries in determining salaries for senior civil servants.

Remuneration and pension entitlements for Ministers and Board Members

Departments will include details of the remuneration and pension entitlements of the Minsters and most senior management of the department – this includes details of what comprises salary, benefits-in-kind and pensions and also tables listing in cash terms the salary, benefits in kind, pension benefits, a single total remuneration figure accrued pensions and cash equivalent transfer values (CETV).

Ministers' single total figure of remuneration

	Salary £'000		Bonus payments £,000		Benefits in kind to nearest £100		Pension benefits £'000[1]		Total £'000	
	2015-16	2014-15	2015-16	2014-15	2015-16	2014-15	2015-16	2014-15	2015-16	2014-15
Minister A										
Minister B										
Minister C										
Minister D										

Ministers' pension entitlements

	Accrued pension at pension age as at 31 March 2016 £'000	Real increase in pension at pension age £'000	CETV at 31 March 2016 £'000	CETV at 31 March 2015 £'000	Real increase in CETV £'000
Minister A					
Minister B					
Minister C					
Minister D					

[1] The value of pension benefits accrued during the year is calculated as (the real increase in pension multiplied by 20) plus (the real increase in any lump sum) less (the contributions made by the individual). The real increases exclude increases due to inflation or any increase or decreases due to a transfer of pension rights.

Board Members' single total figure of remuneration

	Salary £'000		Bonus payments £,000		Benefits in kind to nearest £100		Pension benefits £'000[1]		Total £'000	
	2015-16	2014-15	2015-16	2014-15	2015-16	2014-15	2015-16	2014-15	2015-16	2014-15
Permanent Secretary										
Director General A										
Director General B										
Director General C										
Director D										
Director E										
Director F										

Board Members' pension entitlements

	Accrued pension at pension age as at 31 March 2016 £'000	Real increase in pension at pension age £'000	CETV at 31 March 2016 £'000	CETV at 31 March 2015 £'000	Real increase in CETV £'000
Permanent Secretary					
Director General A					
Director General B					
Director General C					
Director D					
Director E					
Director F					

Pay multiples

The pay multiples disclosure details the relationship between the salary of highest paid director in the organisation and the median earnings of the organisations workforce. Departments will include a narrative explaining the reasons for any variance in year-on-year multiples.

Staff numbers and composition

Senior Civil Service (SCS) staff by band

Salary band	SCS within band as at 31 March 2015		SCS within band as at 31 March 2014	
	Number	Percentage	Number	Percentage
£60,000-£70,000				
£70,000-£80,000				
£80,000-£90,000				
£90,000-£100,000				
£100,000-£110,000				
£110,000-£120,000				
£120,000-£130,000				
£130,000-£140,000				
£140,000-£150,000				
£150,000-£160,000				
£160,000-£170,000				
£180,000-£190,000				

Total staff

Departments will report the average number of whole-time equivalent persons employed during the year, including the use of temporary and agency staff.

Average number of staff employed by activity	Permanently employed staff	Temporary and agency staff	Ministers	Special advisers	2015-16 Total	2014-15 Total
Activity A						
Activity B						
Activity C						
Total						

Expenditure on consultancy will also be disclosed, cross-referenced to the financial statements as appropriate, together with staff sickness information, information on recruitment, and diversity information.

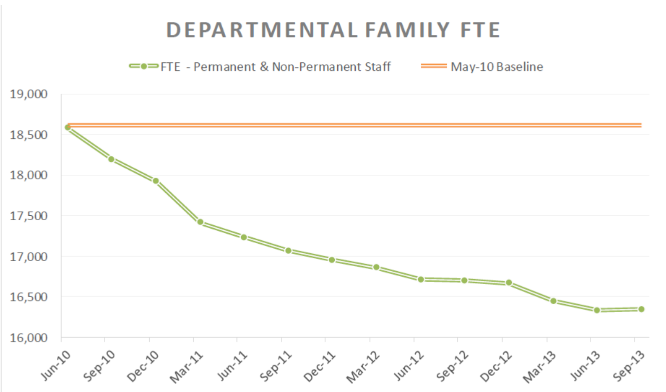
Example: Department for Transport

DATA AT ½ YEAR TO 30/09/2013	DfT	Agencies & Trading Funds	TOTAL
Payroll Staff costs	£54m	£250m	£304m
Non Payroll Staff costs	£10m	£6m	£16m
Paid exits	-	£7m	£7m
FTE	1,714	14,612	16,326
Average annual staff costs per FTE	£62,000	£35,000	£38,000
Annual staff turnover rate	9.53%	6.6%	9.27%
Exceptions to the recruitment freeze	23	562	585
Average Working Days Lost	3.8	7.6	7.3

The improvement in attendance has been due, at least in part, to the introduction at the end of 2012 of a new Attendance Management policy across the department. This policy has driven greater line management responsibility in managing staff absence and clearer procedures to follow in handling both short and long terms absences.

Payroll staff costs have reduced year on year in both the Central Department and Agencies/Trading Funds with average staff costs remaining almost constant over the period. The increase in Non-Payroll staff costs relates largely to the recruitment of skilled professional staff to strengthen the organisation's skills and capabilities in areas such as procurement and other specialist skills enabling the Department to act effectively as a credible counter-party to the market. Both DVLA and Highways Agency have conducted significant recruitment campaigns leading to an increase in exceptions to the recruitment freeze. Following the announcement in June that DSA and VOSA were to merge, both organisations have been working closely together to ensure the successful launch of the new agency in April 2014. In November, the Transport Minister, Robert Goodwill, announced that the new agency will be called the Driver and Vehicle Standards Agency.

The significant increase in paid exits and the annual staff turnover rates between 2012 and 2013 are mainly the result of continuing digitalisation of DVLA services resulting in the closure of 39 DVLA Local Offices and Enforcement Centres. A cross-agency voluntary severance exercise also took place at DSA but the closure of the DVLA local offices accounted for 649 paid exits with a further 268 to leave at the end of December 2013. These closures have also affected annual staff turnover rates with DVLA's own rates increasing from approximately 5% to between 11% and 12%.



The Department for Transport published a staff information dashboard in their Mid-Year Report. This dashboard brought together key facts on staffing, including information that is not mandated, but useful to a reader to provide a more complete picture.

The Department also provided long-term trend information on staff numbers which made it easy to see the scale of staff reductions since the beginning of the 2010 Spending Review period.

Source: Department for Transport 2013-14 Mid-Year Report

Off-payroll engagements

Departments will publish information on the use of off-payroll engagements for highly paid and senior staff, including a declaration that all existing off-payroll engagements have at some point been subject to a risk based assessment as to whether assurance needs to be sought that the individual is paying the right amount of tax and, where necessary, that assurance has been sought.

Table 1: All new off-payroll engagements, or those that reached six months in duration during the year, for more than £220 per day and that last for longer than six months

	Core department and agencies	ALBs
No. of new engagements, or those that reached six months in duration, during the year		
No. of the above which include contractual clauses giving the department the right to request assurance in relation to income tax and National Insurance obligations		
No. for whom assurance has been requested		
Of which:		
No. for whom assurance has been received		
No. for whom assurance has not been received		
No. that have been terminated as a result of assurance not being received.		

Table 2: Off-payroll engagements of board members and senior officials with significant financial responsibility

	Core department and agencies	ALBs
No. of off-payroll engagements of board members and senior officials with significant financial responsibility, during the year		
Total number of board members and senior officials with significant financial responsibility		

Exit packages

Exit packages will continue to be disclosed individually for those individuals who are named in the remuneration report and in total through the exit packages note shown below.

	Core Department & Agencies			Departmental Group		
Exit package cost band	**Number of compulsory redundancies**	**Number of other departures agreed**	**Total number of exit packages by cost band**	**Number of compulsory redundancies**	**Number of other departures agreed**	**Total number of exit packages by cost band**
<£10,000						
£10,000 - £25,000						
£25,000 - £50,000						
£50,000 - £100,000						
£100,000 - £150,000						
£150,000 - £200,000						
Total number of exit packages						
Total cost /£						

Parliamentary Accountability and Audit Report

The Parliamentary Accountability and Audit Report will bring together the key Parliamentary accountability documents in one place within the ARA. This will include the Statement of Parliamentary Supply and those Common Core Tables that are being retained, The Certificate and Report of the Comptroller and Auditor General to the House of Commons and, if deemed necessary, a number of other disclosures based on Managing Public Money requirements.

Statement of Parliamentary Supply

The Statement of Parliamentary Supply shows the department's outturn against the Supply Estimate presented to Parliament. The figures in the areas outlined in bold are voted totals subject to Parliamentary control. Any expenditure in excess of these voted totals is expenditure which does not have Parliamentary approval and it will result in an excess vote. In addition, although the administration budget is not separately voted by Parliament, any breach will also result in an excess vote. If a department incurs an excess vote, the department must clearly identify it and explain how it arose.

	Estimate			Outturn			2015-16 £000 Voted outturn compared with Estimate: saving/ (excess)
	Voted	Non-Voted	Total	Voted	Non-Voted	Total	
Departmental Expenditure Limit							
- Resource							
- Capital							
Annually Managed Expenditure							
- Resource							
- Capital							
Total budget expenditure							
Non-budget resource expenditure							
Total expenditure							
Net cash requirement							
Administration costs							

The supporting notes to the Statement of Parliamentary Supply provide a more detailed analysis of resource and capital expenditure and reconcile expenditure as reported in the Statement of Parliamentary Supply to the IFRS-based financial statements.

Analysis of net resource outturn by section

The table below analyses the department's resource expenditure on the same basis as it was presented in the Estimate. The note will be accompanied by an explanation of the reasons for significant variances between the Estimate and outturn.

										2015-16 £000
	Outturn							Estimate		
	Administration			Programme			Total	Net Total	Net total compared to Estimate	Net total compared to Estimate, adjusted for virements
	Gross	Income	Net	Gross	Income	Net				
Departmental Expenditure Limit										
Voted:										
A										
B										
C										
Non-voted:										
D										
Annually Managed Expenditure										
Voted:										
E										
F										
G										
Non-voted:										
H										
Non-budget										
Total										

Reconciliation of net resource outturn to net expenditure

The Statement of Parliamentary Supply is presented on the same basis as Treasury budget controls and the Estimate. The budgeting system and Estimates process have different objectives to IFRS-based accounts. They support the achievement of macro-economic stability by ensuring that public expenditure is controlled, with relevant Parliamentary authority, in support of the Government's fiscal framework.

Many transactions are treated in the same way in the Statement of Parliamentary Supply and IFRS-based accounts. The reconciliation below sets out the differences between the two different measures of the department's expenditure. Departments will be required to provide explanations for reconciling items.

		2015-16 £000
Total resource outturn in Statement of Parliamentary Supply (SoPS)		
Add:	Grants treated as capital in the SoPS and resource under IFRS	
Less:	Income payable to the Consolidated Fund, not recognised in budgets or Estimates	
	PFI expenditure treated as resource in the SoPS and capital under IFRS	
Net expenditure in the Consolidated Statement of Comprehensive Net Expenditure		

Analysis of net capital outturn by section

The table below analyses the department's capital expenditure on the same basis as it was presented in the Estimate. The note will be accompanied by an explanation of the reasons for significant variances between the Estimate and outturn.

						2015-16 £000
	Outturn			Estimate		
	Gross	Income	Net	Net	Net total compared to Estimate	Net total compared to Estimate, adjusted for virements
Departmental Expenditure Limit						
Voted:						
A						
B						
C						
Non-voted:						
D						
Annually Managed Expenditure						
Voted:						
E						
F						
G						
Non-voted:						
H						
Non-budget						
Total						

Other notes to the Statement of Parliamentary Supply

A note reconciling the department's outturn to its net cash requirement will be included in this chapter or in an annex together with an analysis of income payable to the Consolidated Fund.

Regularity of expenditure

If departments have incurred losses or made special payments or gifts in excess of £300,000 then they will include a note providing details.

Fees and charges

If departments have received fees and charges for a service which has a full cost in excess of £1 million then they will include a note providing details.

Remote contingent liabilities

If material, departments will provide information about contingent liabilities whose likelihood of occurring is remote and are therefore not required to be included in the IFRS-based accounts, but are reported for parliamentary reporting and accountability purposes.

Long-term expenditure trends

Long-term information will be provided on resource and capital expenditure. Departments will be encouraged to use graphs to illustrate high-level trends and standard core tables will provide more detail against individual expenditure lines. The core tables may be included either in the main body of the annual report or in an annex.

Example: HMRC

Trend analysis by graphs

Chart 2.1 Total RDEL expenditure 2010-11 to 2015-16

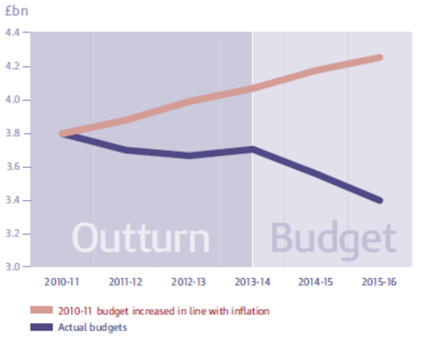


Chart 2.3 Total AME expenditure 2007-08 to 2012-13

Chart 2.2 Analysis of Resource DEL by expenditure type 2007-08 to 2012-13

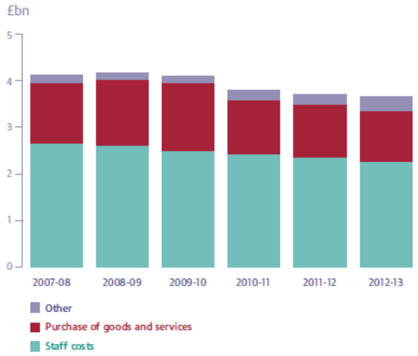
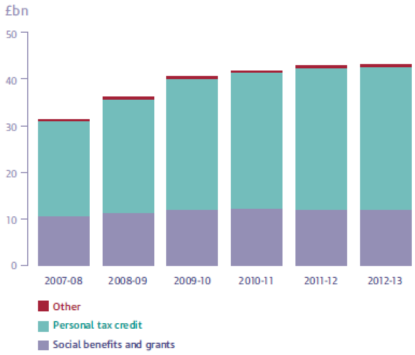


Chart 2.4 Analysis of AME expenditure type 2007-08 to 2012-13



Source: HMRC 2013-14 Mid-Year Report

HMRC provided visual illustrations of multi-year expenditure trends in their mid-year report.

The annual report and accounts will typically include five years' of outturn data and two years' of expenditure plans. Standard core tables will be retained to provide a detailed break-down of expenditure items on the same basis as they are presented in the Estimate.

Total departmental spending

							£'000
Example dates	**2011-12 Outturn**	**2012-13 Outturn**	**2013-14 Outturn**	**2014-15 Outturn**	**2015-16 Outturn**	**2016-17 Plans**	**2017-18 Plans**
Resource DEL							
A							
B							
Total Resource DEL							
Of Which:							
- Staff costs etc.							
Resource AME							
C							
D							
Total Resource AME							
Of Which							
- Staff costs etc.							
Total Resource Budget							
Of Which:							
Depreciation							
Capital DEL							
E							
F							
Total Capital DEL							
Of Which:							
Capital grants etc.							
Capital AME							
G							
H							
Total Capital AME							
Of Which							
Capital grants etc.							
Total Capital Budget							
Total departmental spending							
Of Which:							
- Total DEL							
- Total AME							

Administration costs

							£'000
Example dates	**2011-12 Outturn**	**2012-13 Outturn**	**2013-14 Outturn**	**2014-15 Outturn**	**2015-16 Outturn**	**2016-17 Plans**	**2017-18 Plans**
A							
B							
C							
D							
E							
F							
G							
H							
Total administration budget							
Of Which							
- Staff costs							
- Purchase of goods and services							
- Income from goods and services							
- Rentals							
- Depreciation							
- Other administration expenditure							

The Certificate and Report of the Comptroller and Auditor General to the House of Commons

The Certificate and Report of the Comptroller and Auditor General (C&AG) to the House of Commons is a key accountability document. It certifies that the C&AG has audited the financial statements of the entity, including the Statement of Parliamentary Supply.

There are two opinions provided in the certificate. The first is an opinion on regularity and the second is an opinion on whether the financial statements give a true and fair view of the state of the Department's affairs as at 31 March and of the Department's net operating cost for the year then ended; and the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued there under.

The C&AG may wish to make observations on the financial statements in a report which follows the certificate.

3 Financial statements

Primary statements

Statement of Comprehensive Net Expenditure for the year ended 31 March 2016

		2015-16		2014-15
	Core Department and Agencies	Group	Core Department and Agencies	Group
	£000	£000	£000	£000
Income from sale of goods and services				
Other operating income				
Total operating income				
Staff costs				
Purchase of goods and services				
Depreciation and impairment charges				
Provision expense				
Other operating expenditure				
Total operating expenditure				
Net operating expenditure				
Finance income				
Finance expense				
Borrowing costs on provisions				
Net expenditure for the year				
Other comprehensive net expenditure				
Items which will not be reclassified to net operating costs:				
- Net gain/loss on revaluation of property, plant and equipment				
- Net gain/loss on revaluation of intangible assets				
- Actuarial loss on pension scheme liabilities				
Items which will may be reclassified to net operating costs:				
- Net gain/loss on revaluation of investments				
Net comprehensive income for the year				

Statement of Financial Position as at 31 March 2016

		2015-16		2014-15
	Core Department and Agencies	Group	Core Department and Agencies	Group
	£000	£000	£000	£000
Non-current assets:				
Property, plant & equipment				
Intangible assets				
Financial assets				
Total non-current assets				
Current Assets:				
Assets classified as held for sale				
Inventories				
Trade & other receivables				
Other current assets				
Financial assets				
Cash & cash equivalents				
Total current assets				
Total assets				
Current liabilities				
Trade and other payables				
Provisions				
Other liabilities				
Total current liabilities				
Total assets less current liabilities				
Non-current liabilities				
Provisions				
Other payables				
Financial liabilities				
Total non-current liabilities				
Total assets less liabilities				
Taxpayers' equity and other reserves:				
General Fund				
Revaluation Reserve				
Total equity				

Statement of Cash Flows for the year ended 31 March 2016

		2015-16		2014-15
	Core Dept. & Agencies	Departmental Group	Core Dept. & Agencies	Departmental Group
	£000	£000	£000	£000
Cash flows from operating activities				
Net operating cost				
Adjustments for non-cash transactions				
(Increase)/Decrease in trade and other receivables				
(Increase)/Decrease in Inventories				
Increase/(Decrease) in trade and other payables				
Payments of amounts due to the Consolidated Fund				
Use of provisions				
Net cash outflow from operating activities				
Cash flows from investing activities				
Purchase of property, plant and equipment				
Purchase of intangible assets				
Proceeds of disposal of property, plant and equipment				
Proceeds of disposal of intangibles				
Loans to other bodies				
(Repayments) from other bodies				
Net cash outflow from investing activities				
Cash flows from financing activities				
Net financing from the Consolidated Fund				
Net financing from the National Insurance Fund				
Net financing from the Contingencies Fund and National Loans Fund				
Capital element of payments in respect of finance leases and on-balance sheet (SoFP) PFI contracts				
Net financing				
Net increase/(decrease) in cash and cash equivalents in the period				
Cash and cash equivalents at the beginning of the period				
Cash and cash equivalents at the end of the period				

Statement of Changes in Taxpayers' Equity for the year ended 31 March 2016

	General Fund	Revaluation Reserve	Total Taxpayers' equity
	£000	£000	£000
Balance at 31 March 2015			
Net Parliamentary Funding			
Comprehensive Net Expenditure for the Year			
Revaluation gains and losses			
Transfers between reserves			
Balance at 31 March 2016			

Notes to the financial statements

The notes to the financial statements provide additional detail to users on the accounting policies of the entity and the numbers included in the core financial statements. Notes should only be included where additional information is material, i.e. where its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. In the public sector context materiality can be by nature and context as well as in value, and the decisions of users can be of a non economic nature.

HM Treasury does not require entities to produce notes where the information is immaterial to the user and the Financial Reporting Manual clearly notes that disclosures should be limited to those necessary for an understanding of the entity's circumstances.

HM Treasury contacts

This document can be downloaded from 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

E-mail: public.enquiries@hmtreasury.gsi.gov.uk

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