



Financial Reporting Advisory Board Paper

Mid Year Reporting – Feedback from Liaison Committee and proposals for 2014 guidance

Issue:	<p>HM Treasury introduced a requirement on the seventeen main departments to produce Mid Year Reports in the 2013-14 financial year. Feedback on the first year reports from the Liaison Committee has been received by HM Treasury, along with a more detailed Scrutiny Unit report providing examples of both good and less good practice and areas for suggested future improvement.</p> <p>This paper provides an overview of the feedback received and HM Treasury's proposals for the 2014 Mid Year Reports.</p>
Impact on guidance:	N/A at present
IAS/IFRS adaptation?	N/A at present
Impact on WGA?	N/A at present
IPSAS compliant?	N/A at present
Interpretation for the public sector context?	N/A at present
Impact on budgetary regime?	N/A at present
Alignment with National Accounts	N/A at present
Impact on Estimates?	N/A at present
Recommendation:	That the Board note the feedback from the Liaison Committee and Scrutiny Unit on the 2013-14 Mid Year Reports and HM Treasury's proposals for 2014 Mid Year Reports.
Timing:	2014 Mid Year Reporting guidance is expected to be published in July/August 2014 with a requirement on departments to publish Mid Year Reports in December 2014.

DETAIL

Background

1. At FRAB 120 the Board was provided with a verbal update from the Scrutiny Unit on the first year of Mid Year Reports. The Board was informed that all the reports had been received apart from the Department of Health's and had been reviewed by the Scrutiny Unit which was working with Select Committees on follow up with departments.
2. It was noted by the Scrutiny Unit that the level of engagement of departments had varied considerably, but that in general it was agreed that the format of these reports was easier to digest than that of the Annual Report and Accounts. The Scrutiny Unit indicated that there had clearly been some value in the exercise, with many departments making a good effort to produce well structured, short, and easy to follow documents that provided trend data. There were, however, some recurrent issues including a tendency to paint a "rosy" picture with insufficient focus on risk and a failure to link to expected changes in Supplementary Estimates.
3. The Board was further informed that there would be a report to the Liaison Committee on the lessons learnt from the first year of reports, including conclusions on what went well and less well and recommendations for the future. This would be fed back to HM Treasury and then to departments through a follow up seminar.

Feedback from Liaison Committee and Scrutiny Unit summary findings

4. The Chair of the Liaison Committee wrote to the Chief Secretary to the Treasury in early May 2014. This letter noted that the Committee was delighted that this longstanding recommendation had come to fruition. Two particular issues arising from the first year's reports were also noted. The first was a need for departments to be as open and balanced in Mid Year reporting as possible, recognising not only successes, but also risks and challenges, changes of plan, spending and delivery challenges and how these are being tackled. The second was a request to review policy related to the disclosure of information on major projects. This policy restricted departments to providing the status of projects as disclosed in the last annual Major Projects Authority assessment.
5. In addition to the letter from the Chair of the Liaison Committee, the Treasury has also received a Scrutiny Unit report which provided a more detailed assessment of strengths and weaknesses and provided indications of what could be improved in the future. This report has been provided alongside this paper but the high level summary of findings are noted below:

Area	Findings
Narrative coherence	Departments were encouraged to provide useful narrative to help explain facts and figures, and to bring a sense of 'flow' and 'telling a story' to the MYR. The best example of doing this well is from DCMS, who attempt to tell a story throughout, focussing on broadband and the Olympics. Poorer attempts didn't group data thematically, and left unexplained charts and variances, or used overly technical language to explain figures.
Design and structure	All MYR structures followed Business Plan objectives or Coalition Priorities, and stuck to Treasury guidelines. This approach seemed to work well and provides a sensible structure to follow in future years. Executive Summaries varied in quality, with better reports using these to succinctly explain the main strands of activity and

Area	Findings
	messages. Weaker executive summaries tended to be either very short introductions or long indiscriminate lists of 'achievements' against priorities.
Honesty and openness	Departments were encouraged to use MYRs as an opportunity to communicate both success stories and challenges to the Select Committees. Most departments included little or no detail on challenges/ shortcomings. Good examples of MYRs including challenges are BIS, Home Office and HMRC. In particular in the case of BIS, the inclusion of challenges led to the BIS committee holding a useful discussion about the report. MYRs were also intended to provide a window for departments to inform committees about any large or unexpected intended changes to budgets in Supplementary Estimates. The only example of using the MYR in this way is from BIS, who used the MYR to talk about an expected underspend relating to the Green Investment Bank.
Trends	Trend data was generally dealt with well, with all departments making attempts to provide trend data for at least some parts of their MYRs, generally over 3 years. In all cases, MYRs would have benefitted from departments providing trend data over a larger number of years- for example going back to the start of the current government. Weaker reports provided limited trend data for spending only. Better reports had trend data for longer periods in an annex (e.g. DfT) and ensured that the trends were explained with explanatory narrative.
Use of visual data	Use of good visual data is considered a key part of MYRs. The more appealing and easily digestible information is made to be, the more likely it is that committees will make use of it. The best example of good visual data is from DCMS, who use a variety of charts, diagrams and graphs to demonstrate their data. This makes the report appealing to look at, and also informative. Other reports have made reasonable use of graphs and some charts, but have made little effort to present data any more imaginatively.
Delivery and performance updates	All reports made some attempt to report delivery and performance updates against stated aims and objectives. Some of these updates lacked refinement, meaning that actual achievements were mixed in amongst administrative actions, making it difficult for the reader to work through. A shorter more targeted approach would be more beneficial. There was an observed tendency by departments to only highlight the good, and not provide clarity on where the department are in terms of overall progress/ delivery. It would be beneficial for departments to also highlight specific indications of where performance has slipped or not been in line with expectations and why, as this is not clear in many reports.

Future improvements recommended and HM Treasury proposals

6. The Scrutiny Unit report highlights the same two major areas for future improvement as the letter from the Chair of the Liaison Committee. These are:

Major projects

7. It was noted that due to guidelines around publication of major projects data, departments were restricted in what they could say about major projects in the 2013-14 Mid Year Reports. Departments were only able to refer back to past data published in May 2013, which in turn related back to Quarter 2, 2012-13. Publication of updated major projects data took place in May 2014, and related to Quarter 2, 2013-14.

8. The Scrutiny Unit have indicated that Committees have consistently expressed interest in major projects and frustration that data cannot, under present government wide guidelines, be published on a timelier, and more frequent, basis and suggests that this issue is a real concern that needs to be raised with government.

9. With respect to this issue, HM Treasury recognises the concerns of the Scrutiny Unit and Liaison Committee and will begin discussions on a relaxation of these requirements, particularly where departments have already disclosed additional information publicly that is more up to date than the Major Projects assessments. It is unlikely, however, that these discussions will have been concluded before publication of guidance for 2014 Mid Year Reports.

Openness about challenges

10. The Scrutiny Unit's review indicated that few departments chose to talk about challenges in a meaningful way in their Mid Year Reports, despite HM Treasury guidance requesting a balanced report. Mid Year Reports are unaudited documents and it is recognised that there are few direct incentives for departments to provide information on challenges and risks to successful delivery of services.

11. HM Treasury intends to introduce for the 2015-16 financial year a requirement for Accounting Officers to state in the governance statement that the annual report and accounts, taken as a whole, is fair, balanced and understandable, and provides the information necessary for users of the accounts to assess the organisation's performance, business model and strategy. For Mid Year reporting, guidance will include a similar requirement from 2014 although tailored to the format of Mid Year Reports.

HM Treasury proposals for 2014 guidance

12. HM Treasury will take the results of the Scrutiny Unit review and update the guidance for the completion of reporting that was produced for the 2013-14 reports. This will be discussed with the Scrutiny Unit and departments at an event to be held on 2 July 2014, with final guidance expected to be produced and sent to Departments in late July/early August. HM Treasury is aware that there were aspects of the guidance that cause confusion last year, such as references to management reporting by exception which meant departments were unsure as to the extent to which narrative reporting was required, and will strive to eliminate this for 2014.

13. In accordance with the Simplifying agenda, which requires departments to take greater ownership of the content and format of the performance information they report, there will be no suggested template published for 2014. Instead HM Treasury will note the information that it expects to see in the report and departments will, in consultation with Committees, have the

freedom to report in the manner that best fits their individual circumstances and meets user needs.

Future requirement to produce Mid Year Reports

14. HM Treasury does note that a continued requirement to produce Mid Year Reports in the long-term ultimately depends on the extent to which the Committees to which they are addressed make use of these documents. The Scrutiny Unit have indicated that specific engagement by committees was limited in the first year, and while HM Treasury accepts that the quality of some reports may have limited their usefulness this is disappointing given the efforts that were made to bring the policy to fruition and produce the documents. HM Treasury will therefore review usage of the reports following the second year of their production to assess whether the value of producing the reports is worth the administrative burden placed on departments.

Recommendation

15. The Board is requested to note the feedback from the Liaison Committee and Scrutiny Unit on the 2013-14 Mid Year Reports and HM Treasury's proposals for producing guidance for 2014 Mid Year Reports.

HM Treasury
19 June 2014