



HM Treasury

# **Performance Report Thematic Review**

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# Purpose and Scope

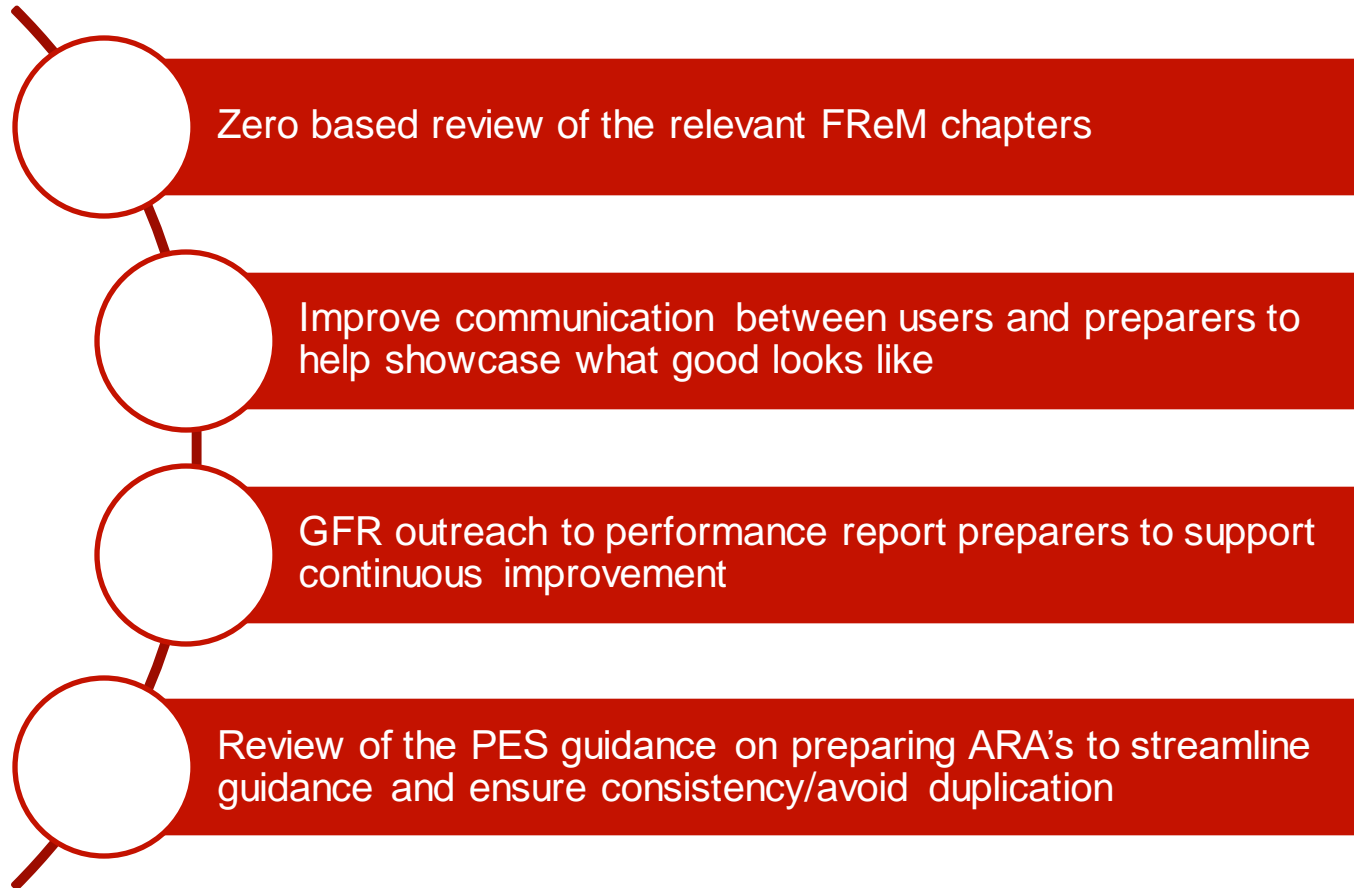
## **Purpose:**

- The purpose HMT's financial reporting thematic reviews is to promote continuous improvement of financial reporting for both users and preparers.
- A review into the performance reporting section of annual report and accounts was identified as a priority by the User and Preparers Advisory Group.
- UPAG suggested the review should focus on how well government reporting sets out both financial and non-financial performance in understandable terms for a variety of users.

## **Scope (as defined by HMT following UPAG discussion):**

- The review focused on chapter 5 and 2 of the FReM, considering if the guidance is fit for purpose, examining current compliance with the guidance, and ensuring the guidance is reflected in the best practice examples report.
- The Annual Report Laying PES paper guidance was also judged to be in scope. A review of the guidance was undertaken to ensure any duplication with other guidance is minimised, and that it remains relevant and useful for preparers.

# Key Deliverables



# Deliverable 1: Zero based review of FReM

## Key documents

- PACAC's 'Accounting for democracy';
- Simplifying and streamlining, and;
- Government financial reporting review.

## Review Actions

- A review of each paragraph in chapter 5 of the FReM was undertaken to ascertain if its inclusion was appropriate and/or necessary, and to ensure its contents were line with the principles and objectives as defined in key documents identified above.
- Findings of this analysis were presented to UPAG and their comments were incorporated into the final recommendations.

## Review Recommendations

This review proposes:

- Paragraphs deemed to not be serving a purpose (paras 5.4.9-5.4.10) are removed.
- Para. 5.4.5(a) is adjusted to reflect that ARAs should instead sign post to a gov.uk webpage containing the static information, to streamline ARAs. HMT to explore publishing a diagrammatic version of the public sector budgeting framework to this aim.
- 5.4.6(b)a.i-5.4.6(c)iii – UPAG feedback highlighted that some of this information is duplicated e.g. in the Public Sector Equality Duty report. The FReM will be updated to suggest departments can signpost to other reports that contain this information in their ARAs.

## Deliverable 2: Improve communication between users and preparers

### Key and Relevant Documents:

- Government Financial Reporting Manual
- HMT's Best Practice Example Report

### Review Actions

- At UPAG on 7 March 2023 a member highlighted that FReM 2.5.5 suggests preparers should seek feedback from the relevant select committee in preparing ARA's to help preparers meet the needs of Parliament. The Parliamentary representative echoed this view at FRAB 149 in March 2023.
- As part of this review HMT has engaged with parliamentary scrutiny unit to discuss any areas where they feel communication could be improved and how best to enable preparers to more accurately understand the needs of Parliament in relation to ARA's
- Feedback received highlighted that there is a desire within parliamentary users for annual reports to focus on more balanced reporting which does not disproportionately focus on positive outcomes. This feedback was discussed with users and preparers at the User and Preparers Advisory Group.

### Review Recommendations

This review proposes:

- HMT to continue to emphasise the importance of balanced reporting through guidance such as the FReM and the PES guidance on an annual report and account production, as well as through training and the provision of best practice examples
- HMT commits to producing a one-off best practice examples report focusing on the performance reporting section of annual report and accounts. With the transparency and accountability section of best practice criteria (as defined in HMT's current best practice examples report) as a starting point.

## Deliverable 3: GFR outreach to Performance Report preparers

### Review Actions

- Outreach to networks such as FRAB, RASIG and RAWG to gather comments and suggestions on how to improve the clarity and conciseness of language in the FReM.
- Combine findings of this engagement with comments received during the [2019 zero based FReM consultation](#) to draft a list of recommendations to improve useability and accessibility of FReM content.

### Review Recommendations

This review proposes:

- The creation of a training video to be published on OneFinance to further explain the purpose and guiding principles for government performance reporting, with a focus on the importance of balanced reporting, transparency, usability and providing context via trend data. The video will also highlight HMT's best practice report and other tools available to preparers to assist with the preparation of ARAs.
- The inclusion of an example of a summary SOPS 2 requirement (FReM 22-23 para 5.4.5(d)) that currently receives minimal engagement from preparers in the one-off best practice report to increase compliance (see example on slide 9).
- The publication of a diagrammatic overview of the ARA that departments can link to in order to satisfy FReM requirement 5.4.5(a) to avoid duplication and streamline performance reporting.
- Changes to FReM wording in Chapters 1, 2 and 5 to make the content more digestible and to reflect the feedback received from the networks listed above e.g. replacing bullet point lists with diagrams where appropriate.

# Deliverable 3: Continued

## Providing video presentation on Performance Reporting for preparers new to the task

A training video (in the form of a narrated PowerPoint presentation) that has been converted to a .mp4 file, has been created and will be published on OneFinance. The 13 minute video aims to summarise the purpose and principles of government performance reporting. The video should support users in their preparation of Performance Reports and increase understanding of the FReM requirements. The video will be made available to all members of government finance.

Screenshots from the video:

### Principles underpinning good Performance Reporting

- True and fair - honest and transparent
- Balanced
- Understandable – plain English, concise and signposting
- Reflect on performance using the structure and activity of the entity that management might use
- Trend data – provide context

### What is the purpose of a Performance Report?

- To allow Parliament and the public to hold the government to account
- To assist with Parliament's decision making



#### How do you achieve that?

- Help the reader understand the purpose of your entity.
- Tell the reader how the entity has performed against key indicators and matching priority outcomes as agreed at Spending Review.
- Tell the reader how spend has been allocated across the priority outcomes.
- Discuss risks and how they are changing over time.

# SOPS 2 summary 5.4.5(d) – CO illustrative example

## Cabinet Office 2021-22 SOPS 2 disclosure

£000	Note	2021-22		2020-21
		Outturn	Estimate	restated <sup>49</sup> Outturn
Budget		1,312,843	1,751,054	1,553,205
Non-budget <sup>50</sup>		-	-	(28,175)
<b>Total resource outturn in SOPS</b>	SOPS 1.1	<b>1,312,843</b>	<b>1,751,054</b>	<b>1,525,030</b>
<b>Add items in CSocNE and not in SOPS:</b>				
GPA non-budget PFI liability expenditure	21	500,757	-	-
Geospatial data (capital under ESA10 definition) <sup>51</sup>	4	118,844	-	140,441
Fair value (gain) / loss on financial assets – associate put options (non-cash)	11.1, 11.2	24,104	-	42,591
Elimination adjustment <sup>52</sup>		4,889	-	(9,907)
Capital grants	4	3,851	-	135,773
Research and development (capital under ESA10 definition) <sup>51</sup>	4	-	-	51,183
Interest income on shareholder loan	10	(184)	-	-
Income from minor disposals – payable to the Consolidated Fund	5, SOPS 4	(235)	-	-
GPA lease incentive receipt		(785)	-	(517)
Share of associates' profit	10	(7,230)	-	(18,597)
Interest income on deferred consideration	10	(7,258)	-	-
(Gain) / loss on disposal of shareholding in associate	4, 10	(148,405)	-	-
Capital grant income	5	(783,591)	-	(732,576)
<b>Less items in SOPS and not in CSocNE:</b>				
Shareholder loan	10	(25,970)	-	-
UK members of the European Parliament salaries and pension	SOPS 1.1	(2,161)	-	(2,232)
Dividends received from associates	10	42,372	-	14,935
Prior period adjustments	SOPS 1.1	-	-	28,175
Utilisation of provisions offset by receivable		-	-	506
Non-budget Consolidated Fund extra receipts		-	(256,749)	-
Port Infrastructure Authority budget transfer <sup>53</sup>		-	(100,000)	-
<b>Net expenditure in the CSocNE</b>	CSocNE	<b>1,031,841</b>	<b>1,394,305</b>	<b>1,174,805</b>

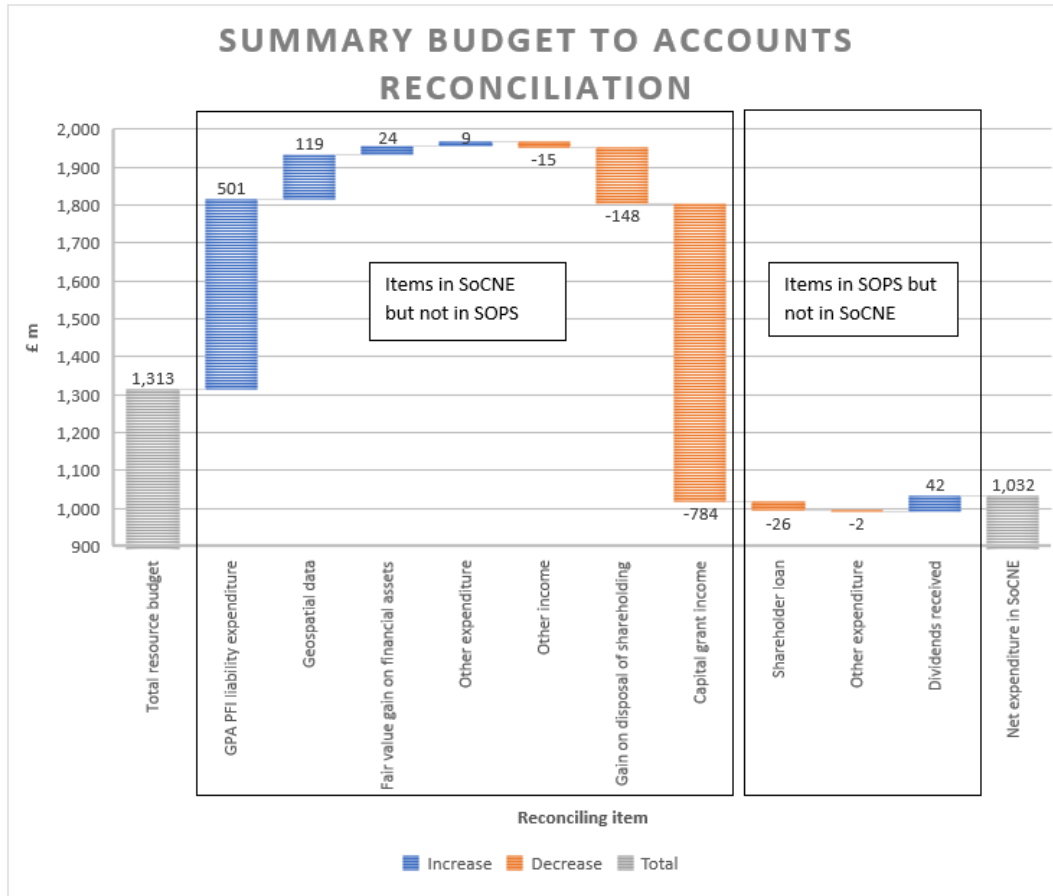
## An illustrative summary and simplification of the disclosure

	202X-2X
£m	Outturn
<b>Total resource budget</b>	1,313
<b>Add items in SoCNE and not in SOPS:</b>	
GPA PFI liability expenditure	501
Geospatial data	119
Fair value gain on financial assets	24
Other expenditure	9
Other income	(15)
Gain on disposal of shareholding	(148)
Capital grant income	(784)
<b>Less items in SOPS and not in SoCNE</b>	
Shareholder loan	(26)
Other expenditure	(2)
Dividends received	42
<b>Non-budget consolidated fund extra receipts</b>	
Budget transfer	
<b>Net expenditure in SoCNE</b>	1,032

d) A summary budget to accounts reconciliation, to help users understand simply how the financial statements link to budget outturn. In some instances, it will be difficult to provide this, where the reconciliation is complex and difficult to summarise. Where this is the case, preparers can of course utilise the comply or explain nature of this requirement and explain why it has not been met with a link to SOPS 2. Please note, this disclosure is intended to summarise and make the information in SOPS 2 more relevant to lay users (for example by presenting it graphically), it is not intended to duplicate SOPS 2.



## SOPS 2 summary 5.4.5(d) – CO illustrative example contd.



Parliament has flagged that they would find increased compliance with this requirement useful to ARA readers.

HMT has designed this waterfall graph as an example of how SOPS 2 information can be presented in a graphical form that complies with the requirement.

The example showcases how the use of infographics can help to present data in a meaningful way.

In providing this illustration, it is hoped that more entities will comply with this 'comply or explain' requirement.

An illustrative waterfall graph using summarised and simplified SOPS 2 data.

## Deliverable 4: Review the PES Guidance on preparing ARAs

### Review Actions

- Review each paragraph of the PES guidance to ensure it fulfils one of the following three purposes:
  1. Helping in guiding the thinking of an ARA preparer
  2. Does not repeating information available elsewhere
  3. Highlights potentials areas of concern
- Engagement with GFR stakeholders and the preparer community to identify other potential improvements to the guidance.

### Recommendations

This Review proposes:

- Rationalisation of the guidance - removal of 17% of content judged to be repetitious or unnecessary - 9 paragraphs of text out of a total of 52 that were repetitions of FREM or other areas of the PES guidance will be removed

# Summary

- HMT worked alongside key stakeholders including UPAG in defining the scope and purpose of this review.
- HMT engaged with relevant stakeholders to understand the needs and wants of both users and preparers when using guidance or reading ARA's.
- That engagement led to the development of several areas of focus for the review and proposed actions, which were then discussed with users and preparers including at UPAG.
- Following this feedback, the outputs of the review were finalised in preparation for review by FRAB. Proposed actions include:
  - The publication of a new training video outlining the purpose and principles of a Performance Report
  - The production of a one-off best practice report highlighting examples of government Performance Reporting that satisfy needs of users including Parliament
  - Changes to FReM wording to increase usability and remove duplication, and the increased use of visuals and signposting where appropriate
  - Changes to the PES guidance to remove duplication and increase clarity
  - Creation of a diagrammatic overview of the public spending framework that can be signposted to in ARA's
- HMT will continue engaging departments and users on Performance Reporting following this review as part of our commitment to continuous improvement





HM Treasury

Please direct questions to Resource Accounts team via:  
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