



HM Treasury

Issue:	This paper summarises the findings of the Performance Reporting Thematic Review, undertaken in line with the commitment made in the Government Financial Reporting Review. The results of this review have been considered by the User & Preparer Advisory Group
Impact on guidance:	This review's actions result in suggested changes to the FReM and PES Guidance issued by HM Treasury which focus on removing duplication and tonal changes.
IAS/IFRS adaptation or interpretations?	N/A.
Impact on WGA?	N/A
IPSAS compliant?	N/A
Impact on budgetary regime?	N/A
Alignment with National Accounts (ESA10)?	N/A
Impact on Estimates?	N/A
Recommendation:	That FRAB notes the outcomes of the Review and approves the suggested changes
Timing:	This review is completed and will be actioned once approved by this board.



HM Treasury

Performance Report Thematic Review

Purpose and Scope

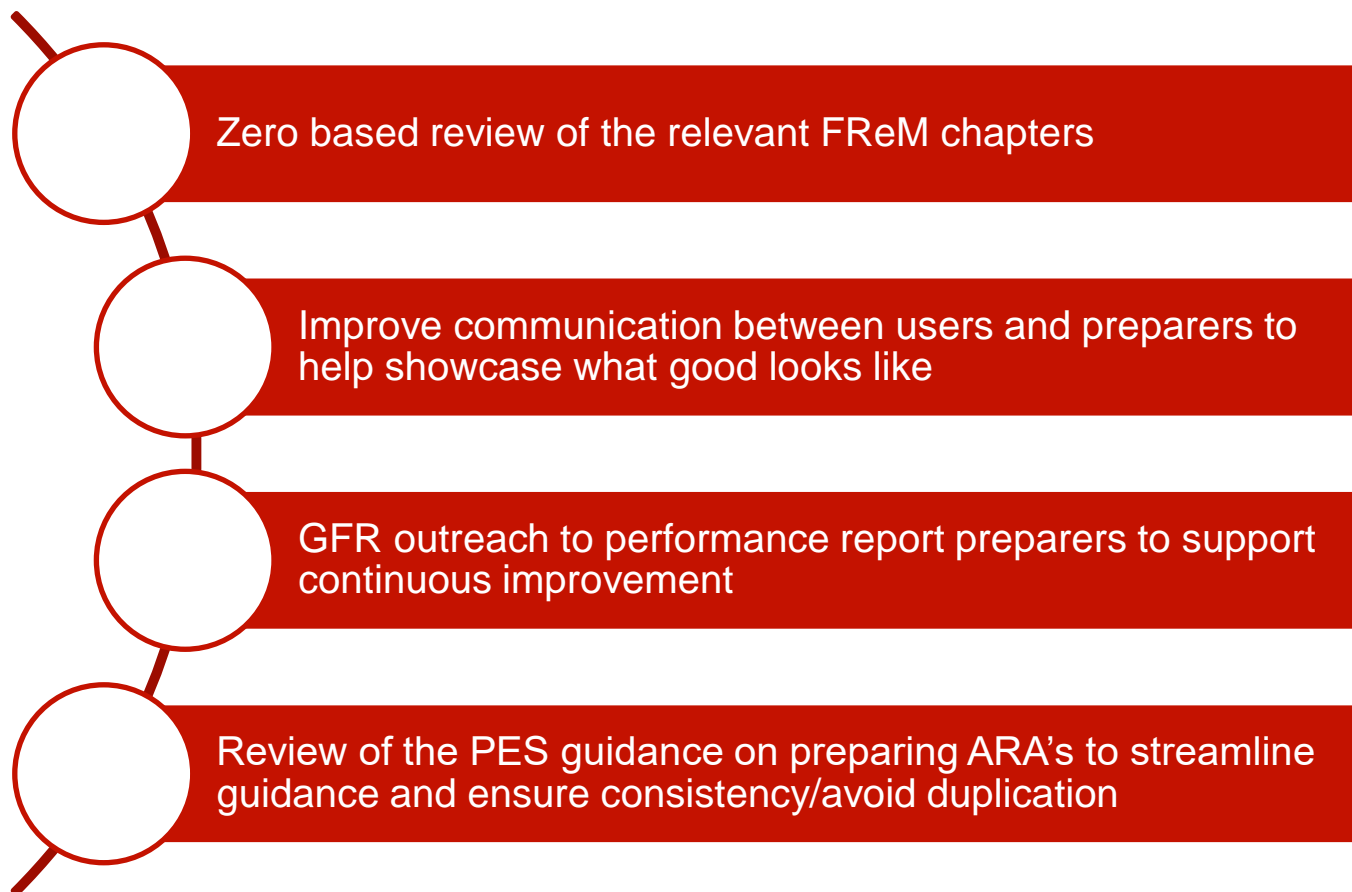
Purpose:

- 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 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: 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 been allocated across the priority outcomes.
- Discuss risks and how they are changing over time.

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.

Amendments of the FReM are detailed in FRAB 151 (XX)

SOPS 2 summary 5.4.5(d) – CO illustrative example

Cabinet Office 2021-22 SOPS 2 disclosure

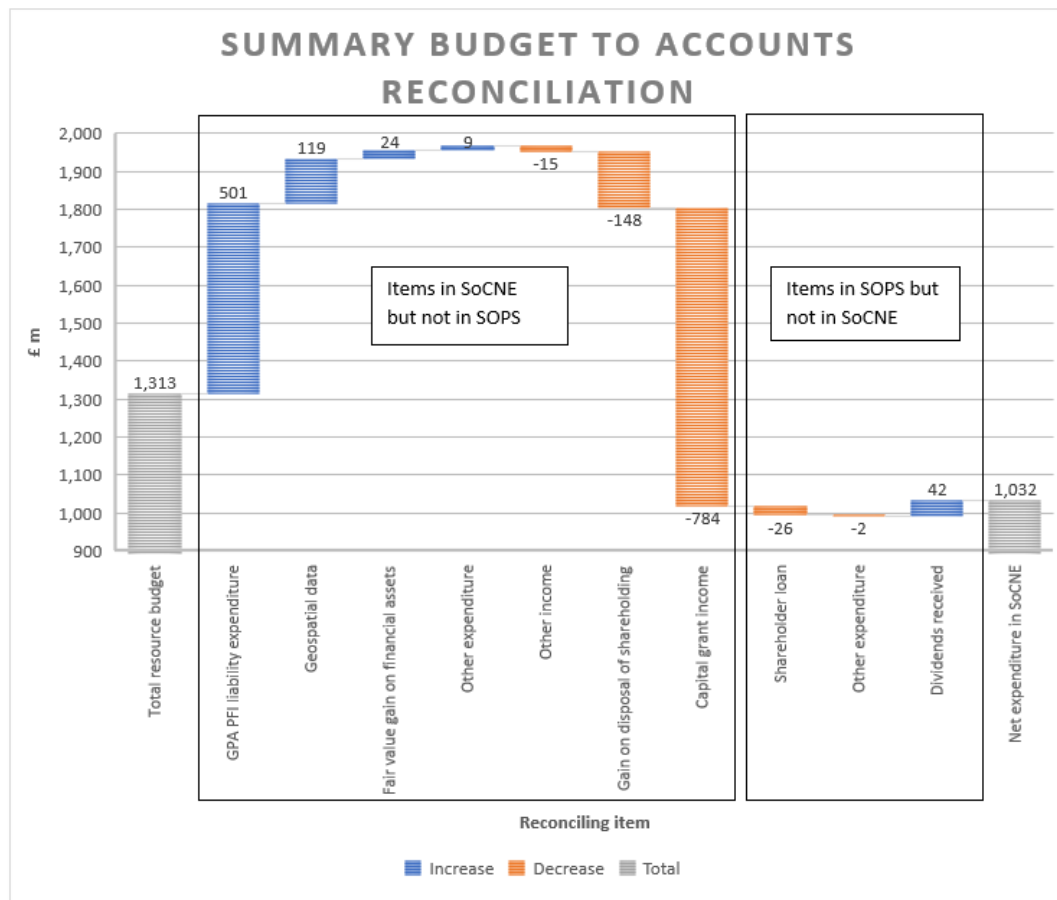
£000		2021-22	2020-21 restated ⁴⁹
	Note	Outturn	Estimate
Budget		1,312,843	1,751,054
Non-budget ⁵⁰		-	-
Total resource outturn in SOPS	SOPS 1.1	1,312,843	1,751,054
Add items in CSoCNE and not in SOPS:			
GPA non-budget PFI liability expenditure	21	500,757	-
Geospatial data (capital under ESA10 definition) ⁵¹	4	118,844	-
Fair value (gain) / loss on financial assets – associate put options (non-cash)	11.1, 11.2	24,104	-
Elimination adjustment ⁵²		4,889	-
Capital grants	4	3,851	-
Research and development (capital under ESA10 definition) ⁵¹	4	-	-
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)	-
Share of associates' profit	10	(7,230)	-
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)	-
Less items in SOPS and not in CSoCNE:			
Shareholder loan	10	(25,970)	-
UK members of the European Parliament salaries and pension	SOPS 1.1	(2,161)	-
Dividends received from associates	10	42,372	-
Prior period adjustments	SOPS 1.1	-	-
Utilisation of provisions offset by receivable		-	-
Non-budget Consolidated Fund extra receipts		-	-
Port Infrastructure Authority budget transfer ⁵³		-	-
Net expenditure in the CSoCNE	CSoCNE	1,031,841	1,394,305

An illustrative summary and simplification of the disclosure

	202X-2X
£m	Outturn
Total resource budget	1,313
Add items in SoCNE and not in SOPS:	
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)
Less items in SOPS and not in SoCNE	
Shareholder loan	(26)
Other expenditure	(2)
Dividends received	42
Non-budget consolidated fund extra receipts	
Budget transfer	
Net expenditure in SoCNE	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:
Public.enquiries@hmtreasury.gov.uk

Chapter 1 – Introduction

1.1 The purpose of the Government Financial Reporting Manual (FReM)

- 1.1.1 Controlling public spending is central to running the country. In a healthy democracy, the power to spend money comes with a responsibility to be open to scrutiny about how that power is used.
- 1.1.2 The Government Financial Reporting Manual (FReM) sets out core guidance for preparing government annual reports and accounts in the United Kingdom. It complements guidance on the handling of public funds published separately by the relevant authorities in England and Wales, Scotland and Northern Ireland, where these are issued.
- 1.1.3 The relevant authorities are:
- a) HM Treasury
 - b) the Welsh Government
 - c) the Scottish Government
 - d) the Executive Committee of the Northern Ireland Assembly
 - e) the Department of Health and Social Care
 - f) CIPFA/LASAAC
- 1.1.4 Under the Government Resources and Accounts Act 2000 (GRAA 2000) HM Treasury is required to provide directions to certain entities to prepare accounts that:
- a) Present a true and fair view; and
 - b) Conform to generally accepted accounting practice subject to adaptations necessary in the context of public sector accounts.
- The publication of this manual is one of the ways HM Treasury discharges its responsibilities under the GRAA 2000.
- 1.1.5 Entities to whom this Manual applies is explained in [section 1.2](#) below.
- 1.1.6 The FReM is prepared following consultation with the Financial Reporting Advisory Board (FRAB) and is issued by the relevant authorities.
- 1.1.7 The government has the responsibility to control and account for public expenditure. This Manual provides guidance on the external financial reporting requirements for reporting entities and falls under the government functional standard GovS 006: Finance. GovS 006 is part of a set of operational standards which set the expectations regarding how government is managed. The purpose of GovS 006 is to set out expectations for effective management and use of public funds. GovS 006 is found on the Gov.UK website:

<https://www.gov.uk/government/publications/government-finance-standards-page>

1.1.8 This Manual references Public Expenditure System (PES) papers and Employer Pension Notices (EPNs). These papers and notices can be accessed as follows:

- a) Public Expenditure System (PES) papers can be accessed through One Finance. Registered users can access OneFinance here: <https://gff.civilservice.gov.uk/>
- b) EPNs are linked in [Annex 5](#) to this Manual.

1.2 The scope of the FReM

1.2.1 The FReM applies directly to all entities ('reporting entities') other than those listed in [1.2.2](#), and to funds, flows of income and expenditure and any other accounts (referred to collectively as 'reportable activities') that are prepared on an accruals basis and consolidated within Whole of Government Accounts (with the exception of the accounts of any reportable activities that are not covered by an Accounts Direction). Relevant authorities and sponsor departments may also require other entities not consolidated in the WGA, through an accounts direction or a framework agreement, to apply the FReM,

1.2.2 The FReM does not apply to:

- Local government,
- those public corporations that are not trading funds, and
- NHS Trusts, NHS Foundation Trusts and Clinical Commissioning Groups.

1.2.3 The Department for Health and Social Care Group Accounting Manual, the NHS Foundation Trust Annual Reporting Manual and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom are compliant with this Manual other than for specific divergences.

1.2.4 In addition, the Welsh Government and the Department of Health in Northern Ireland will apply the principles outlined in the FReM in the accounting guidance that they issue in respect of NHS Bodies in Wales¹, and Health and Social Care Trusts in Northern Ireland.

1.2.5 More detailed guidance on the applicability of the FReM to different bodies is provided in [section 4.3](#) and [section 4.4](#) of this manual.

1.3 The structure and contents of the FReM

1.3.1 The FReM consists of this introduction followed by four sections of guidance, each with its own purpose:

Part A: Purposes, principles and best practice, including:

- [Chapter 2 explains what government financial reporting and government annual reports and accounts are, before outlining the purposes and](#)

¹ This includes Local Health Boards, NHS Trusts in Wales and Strategic Health Authorities

[principles of government financial reporting and the importance of user engagement.](#)

- [Chapter 3 sets out the role of narrative reporting, including the need for balance, the importance of providing context and trends and the importance of making narrative clear and usable.](#)

Part B: The form and content of government annual reports and accounts:

- [Chapter 4](#) gives an overview of the required format and content of the annual reports and accounts for entities covered by the requirements of this Manual, including a discussion of some of the underpinning concepts.
- [Chapter 5](#) outlines the requirements of the performance report.
- [Chapter 6](#) outlines the requirements of the accountability report.
- [Chapter 7](#) provides guidance to reporting entities on the format and content of the financial statements.

Part C: Application of accounting standards for government annual reports and accounts.

- [Chapter 8](#) outlines UK adopted IFRS Standards, together with a record of whether they have been adapted or interpreted for the public sector context in this Manual.

Part D: Further guidance for government annual reports and accounts

- [Chapter 9](#) provides further guidance on accounting boundaries, including accounting for transfers of function between public sector bodies.
- [Chapter 10](#) gives further guidance on accounting for assets and liabilities, including PPE, the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme, intangible assets, impairments and inventories.
- [Chapter 11](#) provides further guidance on accounting for certain specific income and expenditure, including Supply, Consolidated Fund income and the Apprenticeship Levy.

Part E: Additional guidance

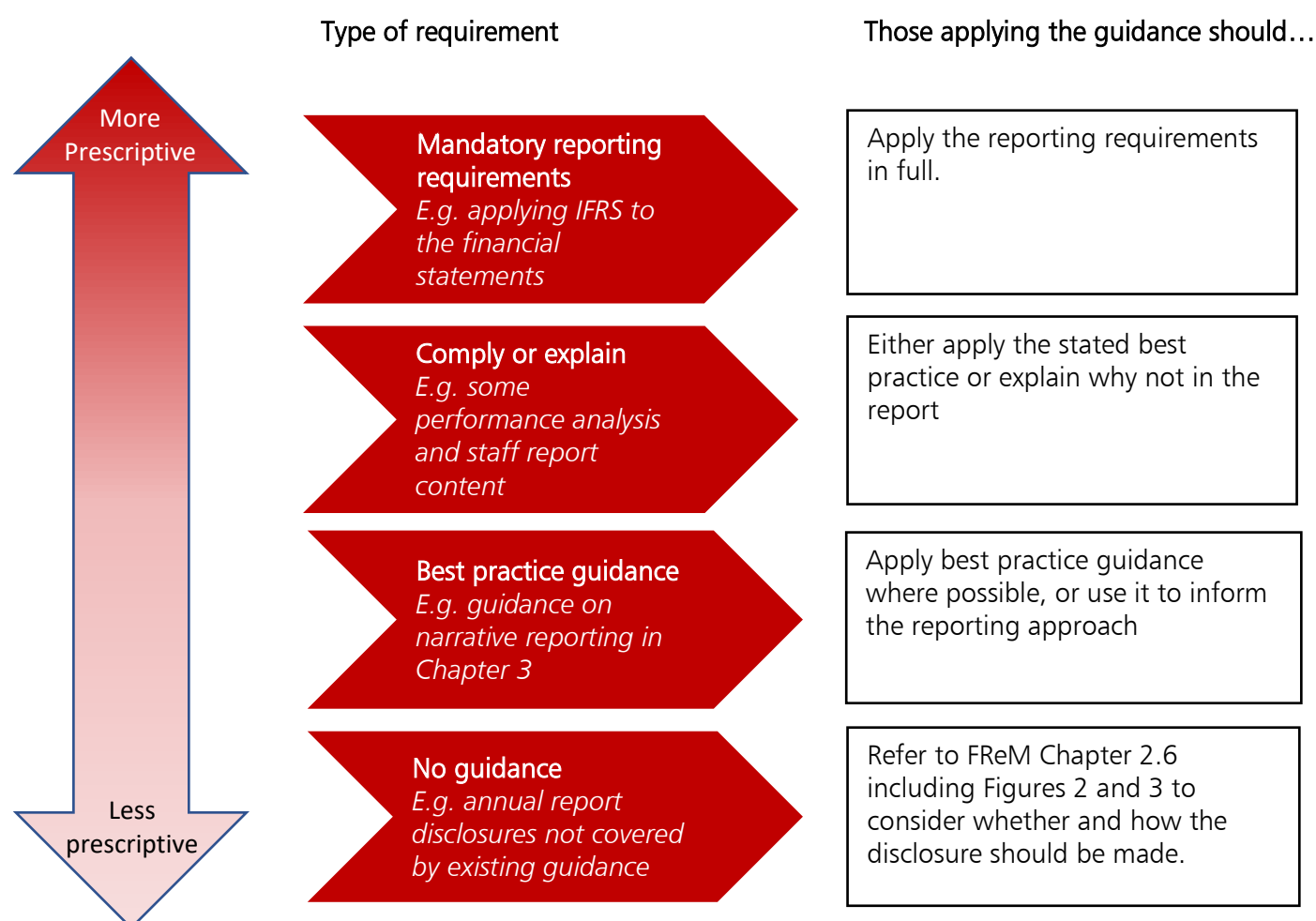
- [Chapter 12](#) outlines further guidance on accounting for pensions, covering pensions accounting by employers and pensions accounting by certain public sector pension schemes.
- [Chapter 13](#) considers the specific accounting and disclosure requirements adopted in the Whole of Government Accounts.

1.3.2 Four annexes give illustrative wording on specific points and links to further resources. Full illustrative financial statements are also available on gov.uk.

1.4 How to apply the FReM

1.4.1 Government annual reports and accounts are prepared within a principles-based framework. The Treasury and other relevant authorities make many of the decisions about how best to apply the principles to reports across government. This ensures consistency, making it easier for users to understand and compare financial reports.

- 1.4.2 Annual reports and accounts are composite documents, bringing together different kinds of information. This Manual sets out mandatory reporting requirements for the financial statements, and for some parts of the annual report. It also includes less prescriptive guidance to support a more flexible approach in other parts of the annual report.
- 1.4.3 Some areas of best practice apply in most situations, but either cannot be applied or would be misleading if applied in others. In these cases, the guidance may specify a 'comply or explain' approach. This means that entities applying this Manual must either follow the stated best practice or else provide a full explanation in their report for their preferred alternative. It is expected that a reporting entity would not provide a 'comply or explain' disclosure only in exceptional circumstances. The comply or explain approach should only be taken where specified in the guidance, and never applied in place of a mandatory requirement.
- 1.4.4 Figure 1 shows the different levels of guidance, from more to less prescriptive, and how they should be applied to develop high quality financial reports.



All requirements introduced with 'shall', or subject to audit, are mandatory. Note that audit requirements may vary for entities under different relevant authorities. For requirements that are not mandatory, the guidance states explicitly when it should be applied on a comply or explain or best

Figure 1: levels of prescriptiveness in financial reporting guidance

1.5 The FReM review and update cycle

1.5.1 The FReM is kept under constant review. It is updated to reflect developments in relevant financial reporting standards and best practice and, where appropriate, to reflect comments received from users and preparers.

1.5.2 Generally, when amendments to the FReM are proposed, many factors will be considered when determining whether to adopt those amendments. These factors include:

- The relevance and materiality of the information produced by the amendment to users.
- The available resources of preparers and the burden imposed by the amendment.
- Impacts on the timeliness of annual report and accounts production.
- The relevance of the amendment suggestion to the user of the accounts.
- The audit consequences of the amendment.
- The appropriate lead time required for the amendment's implementation.
- The ultimate purpose of the addition and if any other reporting method might be more suitable.

~~1.5.1~~1.5.3 The authoritative version of the FReM for any given financial year will be available by the start of the financial year to which it relates. In the event of the need for mid-year updates to the FReM, they will be issued after following due process.

~~1.5.2~~1.5.4 Due process includes consideration of proposed policies by the relevant authorities and consideration by FRAB.

~~1.5.3~~1.5.5 FRAB meeting minutes and papers are published on gov.uk. See [Annex 5](#).

Part A: purposes, principles, and best practice

Chapter 2 – The purposes and principles of government financial reporting

2.1 Introduction

2.1.1 This chapter sets out:

- what government financial reporting is
- what government annual reports and accounts are
- the purposes of government financial reporting
- the importance of user engagement
- the principles of government financial reporting

2.1.2 The principles in this chapter apply to all government financial reporting. The rest of the Government Financial Reporting Manual (FRoM) gives full guidance on how to apply these principles to prepare government annual reports and accounts.

2.2 What is government financial reporting?

2.2.1 Every government body generates a data trail giving details of its financial activity. Filtering and combining this raw data creates useful financial information. For example, a list of every purchase made by an organisation is raw data. One way of turning it into financial information would be to combine data to make it more meaningful, such as breaking expenditure down by categories such as IT equipment, or staff training.

2.2.2 When government financial information is collected and shared, it becomes a financial report. Government financial reports can be internal or external, looking forward (as in budgets) or historical (as in accounts). Each has its own purpose and forms part of the wider landscape of government financial reporting.

2.2.3 At the heart of financial reporting in government are annual reports and accounts, which this Manual supports. However, many of the principles in this chapter could and should apply to all government financial reports.

2.3 Annual reports and accounts

2.3.1 The system of annual reports and accounts is central to financial accountability in the public sector. These reports bring together information on the financial position and activity of a government body, or (in the case of consolidated departmental accounts) of a whole area of government across several bodies. Most financial reporting requirements in annual reports and accounts are mandatory.

- 2.3.2 A set of government annual reports and accounts includes a performance report, an accountability report and the financial statements with their associated notes.



- 2.3.3 Financial statements are prepared according to International Financial Reporting Standards (IFRSs) issued by the International Accounting Standard Board as adapted and interpreted in this Manual.

- 2.3.4 The IFRS Conceptual Framework includes two fundamental qualitative characteristics of useful financial information: relevance, and faithful representation.

- Relevant financial information is capable of making a difference in the decisions made by users, and may have predictive value, confirmatory value, or both.
- A faithful representation is, to the maximum extent possible, complete, neutral and free from error.

Useful financial information, with both characteristics, is essential for the financial statements (and therefore the annual report and accounts) to be fair, balanced and understandable. Preparers should also consider the enhancing qualitative characteristics of comparability, verifiability, timeliness and understandability.

- 2.3.5 See [Chapter 5](#) for more on the performance report, [Chapter 6](#) for more on the accountability report, and [Chapter 7](#) for more on the financial statements.

Chapter 5 – The performance report

5.1 Purpose of the performance report

5.1.1 The purpose of the performance report is to provide the user with an understanding of the entity and how it has performed. It is a vital resource for Parliament and the public, enabling them to hold the government to account, and it should draw together information from across the annual report and accounts to provide a holistic view of performance. Given its importance, preparers must dedicate sufficient time to its preparation and be mindful of applying the principles, best practice and guidance laid out below and in Chapters 2 and 3.

5.1.2 ~~The diagram below shows what a performance report should cover, but is not limited to:~~
A performance report should cover, but is not limited to:

~~a description of the entity (and its group);~~



~~a) how it is organised;~~

~~b) what its aims are;~~

~~c) how it has performed and met those aims; and~~

~~d) any future plans or key risks the entity faces.~~

It should be straightforward and accessible, so that it can be easily understood by a lay user and contain cross-references to other parts of the annual report and accounts where relevant and appropriate.

- 5.1.3 The performance report is required to have two sections: a 'performance overview' and a 'performance analysis'. The performance overview is a short summary of the full story of an organisation and its performance over the period covered by the report. The performance analysis provides a detailed view.

5.2 Principles for the performance report

- 5.2.1 When compiling the performance report, preparers should meet the objectives and principles of government reporting detailed in [Chapter 2](#). Specifically, performance reporting must be fair, balanced, and understandable. It must tell the full story of an organisation, including both positive and negative aspects of performance, so users can have confidence in any judgements and so it is clear that reporting is trustworthy and transparent.
- 5.2.2 In addition, preparers should follow best practice in narrative reporting, as detailed in [Chapter 3](#). Graphical representation and visual aids should be used where possible to aid usability. For example, a Red/Amber/Green (RAG) rating may add clarity when reporting against indicators.
- 5.2.3 Further principles to follow when compiling the performance report are as follows:
- performance reporting should reflect the structure and activity of the organisation, and the information used by internal decision makers, broken down as appropriate by priority outcome (as agreed during the most recent spending review), project, policy, and/or programme.
 - preparers should include trend data to give context to statistics and other metrics, including explanations of the information provided.
 - where practical, preparers should detail when information they present has been audited or not, cross referencing users to where audited information originates in the financial statements or Statement of Outturn against Parliamentary Supply (SOPS).
- 5.2.4 Performance reporting requirements are based on best practice, specific public sector needs, and Strategic Report requirements as set out in the Companies Act 2006 ([Chapter 4A](#) of Part 15).
- 5.2.5 As noted in [Chapter 4](#), arm's length bodies which are companies or charities should follow the requirements of the Companies Act 2006, charity legislation or SORPs respectively, providing additional disclosures as required by this Manual where these go beyond legislation or guidance.

Performance report accountability

- 5.2.6 Auditors will review the performance report for consistency with other information in the financial statements and give an opinion on this. This underlines the importance of the performance report reflecting the position outlined by the financial statements, which, as detailed in [5.1.1](#) above, is key for users.
- 5.2.7 The performance report shall be signed and dated by the Accounting Officer or Chief Executive.

5.3 Performance overview

- 5.3.1 The purpose of the performance overview is to give the user a short (no more than 10 to 15 pages) summary that provides them with sufficient information to understand the organisation, its purpose, the outcomes it is aiming to achieve, its objectives, its

performance against delivering those outcomes and/ or objectives and both the impact of and management of key risks. The performance overview should be enough for the lay user to have no need to look further into the rest of the annual report and accounts, unless they were interested in further detail or had specific accountability or decision-making needs.

5.3.2 The performance overview should not simply be a duplication of the performance analysis section. The performance overview should be a summary to the more detailed appraisal provided in the performance analysis section (which includes more detail on performance against a department's priority outcomes (as agreed at the most recent spending review), goals and strategic objectives, the risks an entity faces and a financial review).

5.3.3 Entities have a degree of flexibility to tell the story of their performance in the manner that best suits the needs of the user. As a minimum, the performance overview shall include:

- a) A short summary explaining the purpose of the overview section.
- b) A statement from the entity's lead minister or chief executive providing their perspective on the performance of the organisation over the period.
- c) A statement of the purpose and activities of the organisation, including a brief description of the business model and environment.
- d) A brief description or diagram detailing organisational structure, if not already included as a result of the above requirements.
- e) A summary of priority outcomes agreed at the latest Spending Review (SR), other strategic objectives the organisation has been working ~~towards,~~ ~~and~~ ~~towards,~~ and details of relevant enabling work taking place within the organisation to achieve said objectives.
- f) A summary performance appraisal, providing a synopsis of the performance analysis section and outlining whether a department is progressing towards achieving its priority outcomes, strategic objectives, key enabling activity and any other organisational goals.
 - † -This section should provide key indicators for the priority outcomes (which should include the metrics agreed to be published as part of the most recent spending review) and other objectives, sub-objectives or work areas. These indicators should be drawn from official statistics or publicly available information and detail whether performance has met expectation or explain why performance is below expectation.
- g) A summary of the principal risks faced and how these have affected the delivery of priority outcomes and/ or strategic objectives, how they have changed, how they have been mitigated and any emerging risks that may affect future performance.
 - † -The descriptions of the principal risks should be sufficiently specific that the reader can understand why they are important. Please note, this should only serve as a summary of the further detail on risks provided in the analysis section, see 5.4.4 b) below. Cross-referencing between the discussion of risk in the performance analysis section (and risk management and internal control in the accountability report, see 6.4.8) is encouraged where relevant and appropriate.
- h) For arm's length bodies, an explanation of the adoption of the going concern basis where this might be called into doubt, for example where there are significant net liabilities, what will be financed from resources expected to be voted by Parliament in the future.

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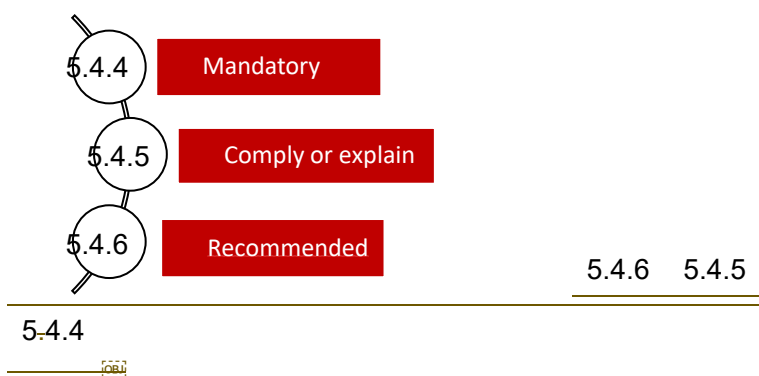
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5.4 Performance analysis

5.4.1 The purpose of the performance analysis is for entities to provide a detailed view of their performance.

5.4.2 Entities should seek to tie in the performance analysis to other parts of the annual reports and accounts as relevant, for example to the Statement of Outturn against Parliamentary Supply (SOPS) and the financial statements, to provide a cohesive and consistent understanding of performance across the annual report and accounts.

5.4.3 The guidance on the performance analysis section is broken down as follows:



- a) — mandatory requirements in 5.4.4
 - b) — comply or explain requirements in 5.4.5 (see Figure 1 and paragraph 1.4.3 in Chapter 1 on the distinction between mandatory and comply or explain requirements)
 - c) — best practice recommendations in 5.4.6
- See Figure 1 and paragraph 1.4.3 in Chapter 1 on the distinction between 'mandatory' and 'comply or explain' requirements.

5.4.35.4.4 It is **mandatory** to include in the performance analysis:

Reporting on priority outcomes agreed at the SR (for those entities that have them):

- a) The performance report section of a department's annual report and accounts shows how they have performed against their priority outcomes agreed at the latest SR, allowing Parliament and the public to track and monitor progress and performance against key indicators. In this section:
 - i. Entities should report against their priority outcomes using indicators using metrics agreed at the most recent spending review and in a manner that they consider would best contribute to the understanding of performance and value for money. This may include both quantitative and qualitative information.
 - ii. Departments should provide outturn performance data against each of the indicators used to monitor performance against priority outcomes with prior year comparative data (where data has been previously reported against a given outcome). Data for years earlier than the prior year should also be

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included where available and where this provides relevant context. Any financial information provided should link to the financial review (see below) and common core tables, as relevant.

- iii. Entities should also note the requirement to report on sustainable development goals in 5.4.7 below.
- b) Further detail on the risk profile of the organisation, i.e. the risks it faces, how risks have affected the organisation in achieving its objectives, how they have been mitigated and how this may affect future plans and performance. This should also cover how risks have changed over time and through the period – including significant changes in risks, such as a change in the likelihood or possible impact, and new and emerging risks. How existing and new risks could affect the entity in delivering its plans and performance in future years should also be discussed.

This requirement is different to the requirement to report on risk in the overview section (5.3). The description in the overview should only serve as a summary of the detail provided in the analysis section. This requirement is also different to that included in the accountability report (Error! Reference source not found.). The discussion of risk in the analysis section covers risk in relation to performance, what risks are faced and how these are mitigated against. The discussion of risk in the accountability report instead focuses on the risk management and internal control system. However, clear and effective cross-referencing between the three sections is encouraged where relevant and appropriate.

- c) Details of any non-financial information on environmental protection, social responsibility, respect for human rights, anti-corruption and anti-bribery matters and diversity, specified by law and adapted by the FReM to apply to the UK public sector.

Reporting on objectives by entities that do not have priority outcomes agreed at the latest SR:

- d) These entities should agree an approach to reporting on performance with their sponsoring body and, if needed, their HM Treasury Spending Team and relevant parliamentary select committee. Otherwise, they should report on their objectives and progress made against them, using unbiased indicators of progress where these have been established. The discussion of progress against plan should incorporate qualitative and quantitative information and prior year and trend information where possible. It may be the case that preparers find it easiest to structure their performance analysis around reporting against objectives.
- e) In Northern Ireland, government departments and arm's length bodies should report on performance in the context of how they are contributing towards the achievement of outcomes, as set out in the Programme for Government (or, in the absence of devolved government, within the Northern Ireland Civil Service Outcomes Delivery Plan). Supplementary guidance will be issued for Northern Ireland.

Additional items to report on for all entities (where they are relevant to the entity):

- f) A short explanation detailing the purpose of the performance analysis section and its structure.

g) Further detail on the structure of the organisation, unless sufficient detail has already been provided in the performance overview section (5.3) or elsewhere in the annual report.

g) Providing additional detail at this point may be beneficial for larger or more complex departments and could potentially refer users to the structural information provided in the accounting officer system statement.

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h) If unit costs are central to decision-making or accountability for the organisation, then they should be disclosed. This disclosure should include the basis for calculation, revealing any areas of subjective judgement. Where possible, the same basis for calculation should be used across different entities and reporting periods to support meaningful comparisons.

i) Where statistics, metrics, or other indicators are disclosed without relevant trend data or comparators, the reason for the lack of trend data should be disclosed. For example, if it is the first year that an indicator has been collected, no prior period data is available.

j) If not already covered through the above, entities should detail performance against any further key financial indicators or measures, tying this into the broader discussion.

k) If not otherwise covered in a trend analysis included elsewhere, entities should provide further detail on future plans, and expected future performance. In particular, anticipated changes in the structure or strategic objectives of the organisation should be noted.

l) A summary or reference to any accountability issues or breaches outlined in the accountability report, that may be worth drawing the attention of users to (this is not intended to duplicate disclosures).

m) A financial review, detailing financial performance. Entities should attempt to tie in a discussion of financial performance into their overall performance, where possible,

m) as financial performance is more effectively appraised against the context of an organisation's overall performance, detailing where the effective use or ineffective use of resources has contributed to meeting or failing to meet objectives. The following should be included:

5.4.5 For entities that produce a Statement of Outturn against Parliamentary Supply (SOPS), this financial review should include (each on a comply or explain basis):

a) Context and an explanation of the public sector budgeting framework and the split of funds between resource, capital, AME and DEL.

a) Diagrams may aid in providing this explanation, showing the flow of funds between different budget categories (i.e. how much is RDEL, CAME, admin, program, etc). This context is required to enable users to understand the analysis of outturn vs Estimate, that should follow, and the SOPS. Key terms should also be defined. Refer to Chapter 1 of the Consolidated Budgeting Guidance for an explanation of budgeting terms and 6.6 below.

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b) A summary table showing outturn compared to Estimate.

b) This table should summarise outturn against Estimate and is not intended to be a detailed duplication of the SOPS. A note should explain that the table ties directly to the SOPS as a key accountability statement which is audited, providing the context that entities must operate within their control limits.

d) Commentary on outturn against Estimate variances.

⇒ This should be provided to help the user understand where there has been agreed or unexpected changes in spending, when compared to the Estimate, and how that has affected performance and why. Commentary should tie to figures disclosed in the SOPS. To provide a summary understanding of variances, preparers may need to tie back to variances presented in note 1 of the SOPS.

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e) A summary budget to accounts reconciliation, to help users understand simply how the financial statements link to budget outturn.

This should be provided to help the user understand how the financial statements link to budget outturn in a simpler way. 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 in a waterfall chart), it is not intended to duplicate SOPS 2.

f) A trend analysis, showing RDEL, CDEL, RAME, CAME spend over the previous 5 years, with future projections based on Spending Review settlements (if future information is available).

g) Supporting analysis should draw attention to patterns of spend over time, how this has impacted performance and how future projections of spend are likely to impact on future performance. A note should detail that the information in the trend analysis ties to common core tables, where further breakdowns are provided. Please note, this disclosure is intended to summarise and make the information in core tables more relevant to lay users (for example by presenting it graphically), it is not intended to duplicate the core tables.

5.4.6 The following are **best practice** recommendations:

- a) Entities that do not prepare a SOPS may still wish to follow the guidance in 5.4.4 (m) above and consider how they can apply it to their annual report for the benefit of the user.
 - i. Following this guidance will ensure all performance analyses will have a clear and consistent structure, detailing non-financial and financial information that summarises key sections of the annual reports and accounts and details progress against organisational goals.
 - ii. While detail on the budgeting framework and outturn against Estimate will not be as relevant for entities that do not prepare SOPS, they should still consider reporting what information on net funding provided through the Estimate and how they have met this, or equivalent, would be useful.
- b) Entities may wish to include, in their performance report, disclosures on how they have promoted equality of delivery of services to different groups. These disclosures may include:

- i. How the entity has had due regard to the three aims of the public sector equality duty¹ under the Equality Act 2010², being:
 - 1. Eliminate unlawful discrimination, harassment, victimisation and any other conduct prohibited by the Act;
 - 2. Advancement of equality of opportunity between people who share a protected characteristic and those who do not share it;
 - 3. Foster good relations between people who share a protected characteristic and people who do not share it.
- ii. Customer satisfaction scores broken down by protected groups.
- iii. If the entity has key performance indicators (KPIs) to cover the fair treatment of different groups and have open access to services, report on performance against these KPIs.
- iv. Explanations of what the entity is doing to promote equalities in how services are delivered and what diversity issues mean in the context of the entity.
 - 1. For example, an entity delivering a frontline service could provide data and information on the groups accessing their service. This may highlight groups who are not accessing the service as much as they could. The entity can then explain what they are doing to address inequalities in access to that service.
- v. The entity may wish to cross-reference to separately published reports covering how they promote equality of service delivery to protected groups and/ or demonstrate how they have due regard to the public sector equality duty.
- c) Further best practice forms of reporting to include in a financial review are:
 - i. an analysis of the balance sheet position year on year, detailing movements in asset or liability balances.
 - ii. detail on the type of spend incurred over the year, for example, on employees, administration, equipment or buildings.
 - iii. detail on outturn against Estimate by priority outcome agreed at the SR, other strategic objective or other goal, although it is recognised this reporting may be difficult to produce if objectives do not align to Estimate lines and if apportioning spend to objectives is highly judgemental.

Sustainability reporting

5.4.7 The requirements in this section are **mandatory**.

5.4.8 Reporting entities are expected to provide information on environmental matters, including the impact of the entity's business on the environment. Entities must also comply with mandatory sustainability reporting requirements. This information is published in the HM Treasury [sustainability reporting guidance](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/85041/equality-duty.pdf) on gov.uk.

¹ Refer to page 4 of the following document for further guidance:
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/85041/equality-duty.pdf

² If you are unsure whether your entity is within scope of the public sector equality duty in the Equality Act 2010, refer to Part 11 and Schedule 19 of the Equality Act 2010:
<https://www.legislation.gov.uk/ukpga/2010/15/contents>

5.4.9 Reporting entities are required to report against climate change adaption, and to report on the impact operations have on the environment as part of wider sustainability reporting. This includes how climate change adaptation :

- is embedded within overall governance, decision making and assurance processes
- features in performance and project management, including the monitoring of impact assessments, and the effective use of sound evidence in policy making
- whether these commitments feature in programme and project gateway reviews

5.4.10 In relation to climate change adaptation, departments should also report on:

- where policy development has been challenged and informed where appropriate, through consultation and stakeholder engagement
- how the department supports staff learning and participation through performance management, learning modules, tools and guidance for policy makers, awareness campaigns, local champions, volunteering and membership of departmental, government, or external groups
- how the department has supported delivery
- the forward-looking commitments for improving performance

5.4.11 Entities falling within the scope of reporting under the Greening Government Commitments and which are not exempted by de minimis limits or other exemption under Greening Government (or other successor policy), shall report performance against sustainability targets, as set out in the sustainability reporting guidance. The sustainability reporting guidance sets out the minimum requirements and aligns with the requirements on the Greening Government Commitments. Departments will need to provide a description of progress in the financial year. Inclusion of reporting against the sustainability targets will fulfil the requirements regarding greenhouse emissions in [Schedule 7](#), Part 7 of SI 2008 No. 410. It is envisaged that such reporting will be integrated throughout the annual report and accounts and not form a separate standalone report.

5.4.12 The Sustainable Development Goals (SDGs) are part of the 2030 Agenda, a package of goals aimed at securing an end to poverty and promoting peace and prosperity globally. The UK Government is delivering the SDGs via HMG's existing planning and performance frameworks. Departments are responsible for delivering the SDGs as relevant to the policy areas for which they are accountable. Departments should clearly identify where their performance contributes towards delivery of relevant SDGs. This will help to demonstrate the government's contribution towards the SDGs and facilitate the effective monitoring of planned activities to achieve these Goals.

5.4.13 Spending bodies accountable to the Northern Ireland Assembly will report on sustainability within the framework established by the Northern Ireland Executive's Programme for Government. Relevant guidance will be issued by the Department for Agriculture, Environment and Rural Affairs (DAERA).

5.4.14 Spending bodies accountable to the Scottish Parliament will report on sustainability within the framework established by the Scottish Government and in accordance with guidance issued by the Scottish Government.

5.4.15 Spending bodies accountable to the Welsh Government will prepare a sustainability report within the performance report based upon targets outlined by the Welsh Government. The Welsh Government will issue relevant guidance.