HM Treasury

Financial Reporting Advisory Board

Proposal for the inclusion of efficiency savings into the Annual Reports and Accounts (ARAs).

Issue:	The Public Accounts Committee has recommended that HMT set a timetable for when departments should include reporting against the Government Efficiency Framework in their Annual Reports and Accounts. This paper sets out the justification and merits of introducing the mandatory reporting of efficiency savings within ARAs for the Board to consider.
Impact on guidance:	Future FREM guidance would need to be changed to include the requirement for efficiency reporting on a comply or explain basis. The Government Efficiency Framework and its definitions apply to central government departments and their agencies, most non-departmental public bodies and arm's length bodies (ALBs).
IAS/IFRS adaptation?	N/A
Impact on WGA?	N/A
IPSAS compliant?	N/A
Interpretation for the public sector context?	N/A
Impact on budgetary and Estimates regimes?	N/A
Alignment with National Accounts	N/A
Recommendation:	1. FRAB members are asked whether they agree in principle to introduce efficiency reporting into the Performance Report section of the ARAs, on a 'comply or explain' basis, with smaller bodies exempted. 2. FRAB members are asked to agree that efficiency reporting should be included in ARAs from 2026-27.
Timing:	For June 2025 FRAB meeting to inform the government's response to the PAC recommendation (due in July); with the aim to include efficiencies guidance in the FReM for 26/27.

DETAIL

Background

1. In July 2023, HM Treasury published the Government Efficiency Framework (GEF) which set out a definition of an "efficiency saving" for use across government, a requirement for all departments to monitor efficiency delivery and provided guidance to standardise reporting across departments. Key elements of the efficiency definition state:

    a. An efficiency saving should not negatively impact outputs or outcomes; savings that do impact output are non-efficiency savings;

    b. An efficiency saving should not be a "cost shunt" (i.e. increasing costs in other parts of the public sector) – given that this would negatively impact outputs or outcomes for the receiving entity.

2. A department's efficiency is a key part of its strategic financial information. Departments commonly agree a range of savings and transformation initiatives to help manage financial pressures. Understanding whether these savings are occurring as planned aids forecasting and medium-term planning. Delivering continuous improvement to services is a key part of using public money wisely; and means that public services can better adapt to long-term changes, such as demand and demography.

3. Since February 2024, 12 pilot departments have been reporting to HMT quarterly on their projected delivery of efficiency savings. All departments are required to report on their efficiencies from 2025-26. Reporting is primarily focussed on efficiency savings that departments agreed with HMT they would deliver (for example, at the Spending Review), as opposed to reporting on efficiency savings occurring anywhere in the department group budget.

4. In February 2024, as part of a hearing on Cabinet Office Functional Savings the PAC recommended that: *After reviewing the first sets of departmental reporting using the new Efficiency Framework, HMT should set a timetable for when departments will report these savings in their annual report and accounts, including determining, in consultation with the National Audit Office, what assurance arrangements these figures will be subject to.*

5. HMT has agreed to go back to the Committee by the end of July 2025 on how best it might deliver the recommendation, with the key next steps.

The NAO and supporting continuous improvement

6. The NAO will not be engaged to substantively audit any future efficiency disclosures, nor will they be expected to provide an opinion on their accuracy or completeness.

7. The NAO have confirmed that departments are encouraged to discuss plans and expectations for the Performance Report and Accountability Report with their auditors; and should consider how to ensure that information presented in them is consistent with the financial statements and provides a holistic view of the entity and its performance.

8. In respect of assurances, the NAO welcome the publishing of shared standards and definitions in the GEF. The NAO was consulted on the HMT GEF reporting spreadsheets and are content that if completed accurately, these would provide underpinning data for efficiency disclosures. They would expect processes to be in place to ensure definitions are used in good faith, and specifically, mitigate cost shunting and adverse effects on outcomes.

This would include evidence of the definitions being met such as through evaluation plans, business case and benefits monitoring, wider financial data on programmes, and output and performance reports.

9. HMT currently runs monthly working group meetings with finance leads from across government departments to help shape and develop efficiency delivery and reporting. The working group is currently focussed on supporting departments to prepare for publication by Q4 2025-26.

The case for including efficiency savings within the ARAs

10. Irrespective of the PAC recommendation, there are reasons to publish efficiency data. In the long-term, publishing data would aid transparency and incentivise efficiency, providing a key indicator of a departments' financial, and service delivery performance.
11. Under **Integrated Reporting principles (the "<IR>" framework),** organisations should report in a way that, amongst other principles[1]:
    a. Discloses information that affects the organisation's ability to create value over the long-term ("**Materiality**");
    b. Takes into account stakeholder needs and interests ("**Stakeholder relationships**")
    c. Shows a holistic picture of the how the organisation creates value ("**Connectivity of information**")."
12. The successful delivery of continuous improvement and transformation (for example, reskilling and redesigning workforces, or making upgrades to IT services), measured through efficiency savings, is clearly relevant to an organisation's long-term prospects for creating sustainable value and meeting the evolving needs of the public. Reporting of efficiency savings in the ARAs will aid a user's understanding and assessment of how effective a department is being in meeting its efficiency targets.
13. Stakeholders, both as taxpayers and service users, also have a clear interest in the improvement of public services without unsustainable increases in cost, meaning that entities should be held to demonstrate the steps they have taken to continuously improve before reducing service quality or increasing income.
14. This interest is demonstrated in the significant level of media and parliamentary interest in efficiency, including from the NAO and PAC, with efficiencies being preferable to non-efficiency savings as efficiencies do not include decisions to reduce costs with the intention to achieve less. The monitoring and reporting of efficiencies supports departments in evidencing to these stakeholders that these efficiencies have been delivered.
15. This Spending Review has seen efficiency targets agreed with all core government departments. This comes with the expectation to monitor and publish progress. The inclusion of efficiency disclosures into ARAs would sit alongside other performance indicators such as priority outcome metrics, providing a holistic view of departmental performance in one location.

[1] IntegratedReporting_Framework_061024.pdf

16. HMRC, DWP[2] and the UK Statistics Authority[3] already publish an overview of efficiency savings within the performance section of their ARAs.

17. At 2 pages long the HMRC example[4] demonstrates how efficiency reporting information could be useful and meaningful in terms of transparency and accountability, whilst not placing too much additional burden on the department or lengthening the ARAs unnecessarily. Their content depicts the departments total annual efficiency savings with broad breakdowns, providing a few key examples.

18. To further mitigate the additional burden to disclose, we would recommend inclusion on a 'comply and explain' basis and using the same 'de minimis' reduced disclosure requirements as those set for sustainability reporting, therefore exempting bodies with less than 500FTE or £500m income/grant in aid from efficiency disclosures.

19. To ensure the efficiency disclosure information is useful, we would recommend a review after 3 years to ensure its inclusion within ARAs had added value.

20. **In light of the above, FRAB members are asked whether they agree in principle to efficiency reporting being introduced into the Performance Report section of the ARAs on a 'comply or explain' basis and exempting smaller bodies.**

Timelines

21. Although 12 departments have been piloting reporting to HMT on efficiencies since February 2024, savings and efficiency targets were only set across all departments from Phase 1 of Spending Review 2025. This applied to the financial year 2025-26, with commitment to monitor delivery of targets through the Government Efficiency Framework.

22. We would therefore recommend efficiency disclosures to begin from 2026-27 onwards. The inclusion of efficiency reporting into the 2026-27 ARAs would necessitate the introduction of new guidance into the 2026-27 FReM to be published this December.

23. **FRAB members are asked to agree to 2026-27 being the first year that efficiency disclosures are included in ARAs.**

Conclusion

24. If the board is minded to agree to the proposal, HMT will return to this board in November with draft requisite guidance, using the HMRC example as a benchmark, for the 2026-27 FReM be published in December.

HM Treasury
19 June 2025

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[2] DWP_annual_report_and_accounts_2023_2024.pdf page 26
[3] UKSA Annual report and accounts 2023/24 page 41
[4] HM Revenue and Customs - Annual Report and Accounts 2023 to 2024 pages72-74