



House of Commons
Scrutiny Unit

Review of Departmental Annual Reports 2008

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1 Introduction

1. This is the Scrutiny Unit's fourth annual cross-cutting review of Departmental Reports, looking at those Reports published in 2008. The Scrutiny Unit forms part of the House of Commons Committee Office. The Unit's finance team assists select committees in their analysis of Government expenditure.

2. Our first such report, *Review of Departmental Annual Reports 2005*, (November 2005)(<http://www.parliament.uk/documents/upload/CSUdeptReviewReport.doc>), made a number of recommendations aimed at improving the quality of reporting in Departmental Reports. Our second and third reports, published in February 2007 and March 2008 respectively, looked at the progress made towards implementing our earlier recommendations.

3. This report looks again at the progress made towards implementing our recommendations from 2005. In previous years we have included a selection of good practice examples from Departmental Reports to illustrate our recommendations. These can be found at the end of our 2005, 2006 and 2007 reports. We would encourage those preparing Departmental Reports to look back at our earlier reports for a bank of illustrative examples.

4. The 2008 Departmental Reports are the final set of reports to be prepared under the 2004 Spending Review Public Service Agreement (PSA) targets. In future years Departments will report primarily on progress against the new 2007 Comprehensive Spending Review cross-government PSA targets and Departmental Strategic Objectives (DSOs).

Role of the Scrutiny Unit in the Departmental Report process

5. Part of the Scrutiny Unit's function is to assist Select Committees in performing financial scrutiny of government. This includes reviewing Departmental Reports and highlighting areas that Select Committees may like to investigate further with the relevant government department.

6. When reviewing Departmental Reports we check for compliance with Treasury guidance, analyse the financial information presented and review the reported performance against PSA targets. We may assist Committee staff in drafting written questions for the departments, briefing MPs for oral evidence sessions or preparing Committee reports.

7. A by-product of this support for each Committee is that we are able to evaluate the quality of Departmental Reports in aggregate – a view not readily discernable for individual Committees or those in departments charged with producing Departmental Reports.

Review of 2005, 2006 and 2007 Departmental Reports

8. The Scrutiny Unit analysed 21 Departmental Reports in 2005, producing an overarching report with recommendations for improvements to reporting formats and examples of good practice.

9. We considered the various 2005 Departmental Reports in the light of the guidelines produced for departments by the Treasury and the general usefulness of the Departmental Reports to the reader, and we discussed presentations which either confused or enlightened.

10. The key recommendations from our 2005 report were that Departmental Reports should include:

- Notes accompanying core financial tables to explain trends and unusual movements;
- Direct linking of expenditure /resources to targets/outcomes;
- Comprehensive discussion of progress on the efficiency programme;
- Consistently expressed assessments which follow logically from the information provided;
- Full information on the quality of data used to assess targets, clearly setting out any limitations;
- Full commentary on past performance, with explanation for failures to meet targets and discussion of future initiatives; and
- Reconciliation of objectives and targets, and presentation of performance over time.

11. To follow up on this work, the Scrutiny Unit analysed 17 Departmental Reports in both 2006 and 2007. We assessed progress against our 2005 recommendations and found:

- The number of departments that provided commentary with their core tables increased over the two years;
- More departments linked resources to objectives in their reports, but we also found that fewer departments linked resources to targets and outcomes;
- No Departmental Report fully met the Treasury requirements for reporting efficiencies in either 2006 or 2007;
- In general, departments improved the way they founded their assessments of PSA performance from the evidence presented;
- Reporting of data quality remained an issue for most departments;
- Few departments mapped targets to objectives, and tracked targets over time in either 2006 or 2007;
- Reports were generally more forward looking, but there was still a reluctance to explain poor performance;
- In 2007, two departments produced reports for the first time which also included their Resource Accounts (former DTI and Treasury), making them more useful

documents (see below) - a third department (MOD) had been already producing such a combined document for some years;

- Most departments continued to meet the Treasury deadline for publication; and
- The accessibility of Departmental Reports improved.

2 Review of 2008 Departmental Reports

12. The Scrutiny Unit reviewed 18 Departmental Reports in 2008, again focussing on the recommendations made in 2005 and looking for progress and examples of best practice. We considered whether the Departmental Reports complied with revised Treasury Guidance and also the timeliness of the report and its accessibility to the layperson. Our detailed findings comprise the remainder of this report. In summary:

- Nearly all of the departments provided a commentary on their core tables, but for many there still was not enough focus on explaining variances and unusual year-on-year movements;
- Some departments continued not to link resources to objectives, targets and outcomes and a further two departments' Reports have deteriorated in this area since last year;
- Again, no Departmental Report fully met the Treasury requirements for reporting efficiencies;
- In general, departments improved with regard to drawing their assessments of PSA performance from the evidence presented, although there were still some examples of apparently doubtful or inconsistent assessment of PSA performance ;
- More departments included comments on data quality throughout their PSA reporting in their reports this year than in 2007, although there were still some departments that made no reference to this;
- More departments failed to map targets to objectives; however, more departments tracked performance against targets over time;
- Reports were more forward-looking than in previous years, but there still appeared to be a reluctance to explain poor performance;
- One department produced a joint Departmental Annual Report and Resource Account document for the first time (Cabinet Office), in addition to two departments that had already started publishing such a document: the Ministry of Defence (MoD) and the Department for Business, Enterprise and Regulatory Reform (DBERR);
- Due to the fact that four departments originally intended to published a document that incorporated their Resource Accounts, more departments failed to meet the Treasury deadline for publication (six in 2008, compared to five in 2007); and
- Some departments made their reports significantly easier to read than in previous years, but there were other departments that still exhibited weaknesses we had previously identified.

Notes accompanying core tables

13. All of the Reports had some explanation of the core tables in footnotes, although, as we also noted in 2007, the explanations varied widely in their depth of analysis. Many still required further information to be sought by the Committees.

14. Some departments had expanded the level of analysis they provided from basic footnotes to a commentary that preceded the tables and explained to the layperson what the tables were intended to show. However, even where this had been done, there was sometimes still a lack of analysis of the actual data shown in the tables.

15. It was most helpful where departments provided commentary to set the tables in context and make them more accessible; a good example of this is in the Department of Health (DOH) Report.

16. Comprehensive and accessible commentaries were found in the HM Treasury (HMT), Cabinet Office, Department for Culture, Media and Sport (DCMS) and Department for Environment, Food and Rural Affairs (DEFRA) Departmental Reports, which had an explanation of what the tables were showing, as well as comprehensive notes explaining some of the key movements.

Linking resources to objectives/targets/outcomes

17. In 2005 we identified that it was difficult to determine from the Reports how resources could be attributed to departmental performance.

18. In 2008, we found that just under half of the reports we looked at had reported expenditure according to objectives. However, much of this was incomplete. Good examples were in the core tables of the Foreign and Commonwealth Office (FCO) report, where its administration budget was analysed according to objectives and priorities, and Department for Transport (DfT), which provided a breakdown according to functional areas and DSOs.

19. In addition to these, there were some departments which analysed expenditure according to outcomes, in that they used aims, strategic headings or, as in the case of Northern Ireland Office (NIO), general work areas. HMT disclosed expenditure by department and then subdivided this into administration and programme costs. Some of the programme costs were further subdivided into specific programmes. Although these splits did not link directly to DSOs or PSAs, this approach did give figures for some specific programmes, such as coinage.

20. Disappointingly, six departments were still failing to meet Treasury guidance in this respect and two departments appeared to show deterioration; where in previous years they had provided the recommended analysis, this was no longer given in 2008.

21. One department, the Department for Communities and Local Government (DCLG), had gone further than other departments by also presenting expenditure incurred against each PSA target, along with equivalent expenditure for the year before, in boxes spread through the main body of the report. These provide a useful further breakdown of the 'core tables' data.

Efficiency reporting

22. Eight departments improved their performance against Treasury guidelines on efficiency reporting from last year. Although, as was the case in prior years, there were still some Departmental Reports that lacked substance and detail.

23. In our 2005 report we recommended that departments include a summary table setting out their efficiencies, reconciled to the planned saving set out in the Efficiency Technical Note. In 2008, DCMS included a table setting out efficiency savings by area, while Annex 7 in the Department for International Development's (DfID's) Report provides good detail on savings from each area, comparing outturn against targets for each of those areas.

24. In 2008 there was a slight improvement in the number of departments reporting on the impact of savings on the quality of service delivery, although this information was still either very brief or lacking detail. Useful submissions were provided by NIO and HM Revenue and Customs (HMRC). We would re-emphasise that it is not enough to assert that service quality has been maintained, or to simply list ways in which it will be monitored. Without providing evidence, departments risk undermining confidence in claimed achievements and invite further Committee probing.

25. Reporting on relocations and headcount reductions was, again, generally sufficient. Some departments provided descriptions of how and where reductions had been achieved and how this differed from initial plans. Committees are interested in hearing about the impact of these changes.

26. Three departments reported on how gains had been audited, with DBERR offering useful information on this.

27. Overall, we found that there were three aspects of Treasury guidance on efficiency reporting that most departments failed to comply with fully:

- Defining how gains claimed in previous years had been audited and outlining the auditor's conclusions;
- Describing the quality of relevant data systems and detailing any significant limitations; and
- Reconciling reported progress on workforce reductions against the workforce reductions as published by the Office for National Statistics (ONS) in the 'public sector employment' statistics.

28. The deadline for delivery of efficiency savings was 31 March 2008, at which point departments transferred to the 2007 CSR programme which set Value for Money (VfM) targets for the three year period to 2010-11. Departments should have provided final figures for Spending Review 2004 efficiency savings in their 2008 Departmental Reports or, for those unable to, alongside their first reporting against the CSR07 VfM targets in the 2008 Autumn Performance Reports (APRs). Indeed, we subsequently noted that in all cases the APRs presented assessments as at the end of March 2008, with two thirds of these departments clearly labelling these figures as their 'final' assessments.

Assessments of progress against PSA targets

29. In general there was an improvement in the way assessments of PSA performance were credibly drawn from the evidence presented. However, for almost every Departmental Report we examined there was still sufficient uncertainty for us to raise further questions about the progress reported for at least one PSA target. The reasons were similar to those we noted in 2006:

- Link between information presented and assessments unclear;
- Not reporting against all indicators;
- Difficult to ascertain why the progress of some targets had changes from the information provided;
- Progress commentaries were not updated from the previous Autumn Performance Report; and
- Nothing to support trajectories presented of expected future expected performance.

30. There was a reduction from last year in the number of departments using non-standard terminology when reporting progress against targets.

31. There was one instance noted, where data from previous years had changed from that reported in the 2007 APR with no explanation. There was another example where it was difficult to ascertain why assessments of performance had changed.

32. Although the majority of Departmental Reports discussed whether or not each target had been met, a lot of departments did not say what they had contributed to achieving the target or give evidence to show that their work was assisting them to meet the targets.

33. As with the 2007 Reports, some joint targets were reported inconsistently. We noted two instances where departments had reported different assessments against a joint target. This is an increase from last year when one joint target was inconsistently reported.

34. Seven Departmental Reports gave a clear statement of the baseline, target, annual outturn and latest outturn for the majority of their PSA targets. The assessments drawn seemed reasonable.

35. Treasury guidance recommends that where reporting of progress against PSA targets is dispersed throughout the report, there should be a summary table giving an at-a-glance picture of overall performance. All but one of the departments presented such a table, making the Departmental Reports more user-friendly. Good examples of this were the MOD, Department for Children, Schools and Families (DCSF), Department for Work and Pensions (DWP) and HMT reports.

Data quality

36. Three departments made no reference to the quality of the data systems used to measure performance against PSA targets. This is a reduction from seven the year before.

Reference to data quality is a requirement of Treasury guidance that wants the reader to take into account any limitations in the underlying data systems when interpreting the results given.

37. Again, as we noted in 2006 and 2007, most departments made only passing reference to their PSA technical notes or the NAO validation work, without giving any indication as to what the reader might find there. There were six departments that could be considered to have comprehensively covered the quality of data systems. This is an increase of one from last year.

38. The Cabinet Office Annual Report referred to the areas where the NAO had raised concerns about data systems and it explained how the data limitations had been dealt with. The DCSF Annual Report provided an outline of the data system used, the method of data collection and any issues with the data systems for each PSA target.

Mapping targets to objectives, and tracking performance against targets over time

39. The majority of departments had mapped their PSA targets to their current objectives. However, the number of departments doing this had decreased from the year before.

40. There was an increase in the number of departments that tracked performance against targets over time. In 2007, only three departments fully reconciled their SR04 targets to their SR02 targets in a manner that was easy to understand. This increased to five in 2008.

41. One department had mapped SR02 to SR04 targets in their Annual Report last year but failed to replicate this in their 2008 report. In addition, one department failed to report on its outstanding SR02 targets in both its 2007 and 2008 Departmental Reports, so the final outcome was still unknown.

42. The most comprehensive comparison of SR02 and SR04 targets was provided by DWP, which also looked at outstanding SR98 targets.

Explanations for failing to meet targets and discussions of future performance

43. There was little improvement in this area since 2006. Again, the tone and presentation in some Departmental Reports still showed a reluctance to explain inadequate performance against targets, although five departments did so, particularly the MOJ and the MOD.

44. Where performance slips, the immediate questions are: 'Why has this happened and what is the department doing about it?' Departments should aim to pre-empt such questions and to provide a balanced view of performance, not just achievements.

45. Several departments included reasons for slippage in their progress reports, but these weren't clearly flagged by headings and they varied in depth. DfID's Departmental Report provided a full discussion of past performance. In its 2007 Departmental Report it went even further, with the inclusion of an Annex discussing 'off-track' PSAs, which was very useful.

46. Again, several departments outlined forward looking initiatives that are designed to improve performance. The DEFRA report provides detailed analysis for each target, along with factors affecting performance and initiatives underway, and the NIO outlined a 'looking forward' section for each core area.

Compliance with other requirements of Treasury guidance

47. As well as requiring Departmental Reports to cover the themes covered above, Treasury guidance also asks that departments report on:

- PAC recommendations made during the year, along with their response;
- Spending on 'consultancy and staff substitution/interim management' in departmental reports, including such expenditure by their executive agencies;
- Better regulation, including examples of how cultural change is being embedded; and
- Details of public bodies as well as any other information in the public interest.

48. A small number of departments failed to comply with either one, or all, of these requirements. We found that these requirements had been dealt with most effectively by departments that included this information in separate Annexes to their reports - as seen in the DfT Annual Report.

Timeliness

49. Select Committees often schedule sessions on the Departmental Reports well in advance, based on the publication deadline given in the Treasury guidance, and would ideally send written questions to departments for response ahead of those sessions. Late publication can therefore be inconvenient.

50. Most of the 2008 Departmental Reports were published around the Treasury deadline of 19 May 2008. Three managed to publish early. Of the six departments that did not meet the publication deadline, four (MoD, Cabinet Office, DBERR and HMT) did so in order to publish their Departmental Annual Report and Resource Accounts alongside each other in a combined document. All but one of these departments managed to publish their combined documents in advance of the Parliamentary summer recess, allowing Committee scrutiny early in the autumn. The remaining department chose to publish its Departmental Report first, in early July, because its Resource Accounts were taking longer to achieve audit clearance than had previously been planned.

51. An aim of the Treasury's initiative for departments to combine the Annual Report and the Resource Accounts is to produce a more useful document overall, with less duplication of material and clearer links between performance and financial reporting. Any other departments contemplating producing combined documents in 2009 will need to consult their respective Select Committee.

Accessibility of the report

52. The Scrutiny Unit's 2006 report highlighted a number of considerations on accessibility:

- Length of document;
- Prioritisation of key issues using headings, text boxes, summary tables and colour;
- Inclusion of illustrative examples that people can relate to;
- Structure/cross-referencing/indexing;
- Avoidance of excessive use of jargon and technical terminology (including a glossary);
- 'Traffic light' assessments of performance;
- Consistent formatting;
- Avoidance of large blocks of dense/small text;
- Columnar format to avoid difficulty of reading overly long lines of text;
- Use of illustrations/photographs/colour; and
- Using appropriate graphics, especially to show time-series data.

53. Graphics should be easily understood and not open to mis-interpretation by the layperson. Is the title, design and data presentation conveying a clear message? Is the best format being used to present data? Large numbers of figures included in blocks of text could be better brought out in tables, charts or lists.

54. As in 2007, in their 2008 report several departments have made improvements in this area, and produced documents that were far more user-friendly. However, six departments continued to produce large expanses of unbroken, densely packed text.

55. The MOD and DCMS Departmental Reports were highly accessible to the reader. The MOD report was structured in two sections, which both made good use of photographs, charts and other figures. DCMS produced a relatively short Report which included photographs and figures.

56. We also found that a number of departments continued the practice of reporting on their PSA targets in a separate Annex, rather than dispersing their progress reports throughout the document. Adopting this approach made it much easier for the reader to get an overall picture of performance.