



GAM

abi
pu

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

21 December 1989

Dear Carys,

FINANCIAL REPORTING TO PARLIAMENT

The Prime Minister was grateful for the Chief Secretary's minute of 18 December. She is content for him to proceed as proposed with the publication of a short White Paper on 9 January.

I am copying this letter to the Private Secretaries to other members of the Cabinet, Murdo Maclean (Chief Whip's Office), and Sonia Phippard (Cabinet Office).

Pa.
pu

PAUL GRAY

Miss Carys Evans
HM Treasury

5

CC PM



Prime Minister

Andrew and I support this proposal for early publication of the departmental reports in advance of the Estimates. Consider with this proposal and for the short White Paper to be published on 9 January?

FROM: CHIEF SECRETARY
DATE: 18 December 1989

PRIME MINISTER

Recd
with Agreement

FINANCIAL REPORTING TO PARLIAMENT

The structure of the public expenditure documents has been the subject of considerable discussion over a number of years. The TCSC and the PAC have put forward their own ideas and in May 1988 the Government set out its proposals in a White Paper (Cm 375). We proposed that the main public expenditure totals would be published in an expanded Autumn Statement as soon as possible after the completion of the Survey. The detailed plans would be contained in separate departmental reports, which would be published on or before Budget day, simultaneously with the Estimates.

2. The TCSC and the PAC broadly welcomed these proposals and we began to implement them last year. The only outstanding issue is the timetable for publishing the new departmental reports. In a report in June this year, the PAC recommended that the publication of both the Estimates and the departmental reports should be brought forward to January, to allow time for their consideration by Parliament before the end of the financial year. In our initial response, we promised to look again the timetable proposed in Cm 375.

3. Consultation with Departments has confirmed that we could not significantly advance the publication of the Estimates without weakening the Estimates scrutiny.

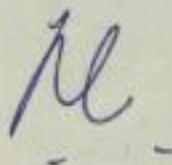
4. The proposals in Cm 375 were a compromise between the conflicting objectives of publishing departmental reports as soon as possible and publishing them simultaneously with the Estimates. The PAC now appears to be giving greater weight to the first of these objectives. Moreover, the move to the new planning total has greatly improved the alignment between the plans and the Estimates, which was one of the purposes of suggesting their simultaneous publication.

5. I conclude that the best course is to publish the departmental reports within a few weeks of each other in January/February, and the Estimates (as now) around the time of the Budget. I propose that we do this in 1991, but review the timetable for later years in the light of experience and any further comments from the TCSC and the PAC.

6. If you and colleagues are content, I recommend that these conclusions should be published in a short White Paper, a draft of which is attached. It has already been agreed between officials. The White Paper also provides a convenient opportunity to publish the Treasury's guidance on the common core of financial information to be contained in departmental reports, as requested by the TCSC. This appears in the Annex to the draft White Paper.

7. I would propose to publish the White Paper on Tuesday 9 January, ahead of the 1990 public expenditure White Paper at the end of that month.

8. I am copying this minute to Cabinet colleagues, to Timothy Renton, to Sir Robin Butler and to Bernard Ingham.



NORMAN LAMONT

Financial Reporting to Parliament

Introduction

In the White Paper, "Financial Reporting to Parliament", (Cm 375), the Government set out proposals for future publication of financial information. These included the introduction of departmental reports, to be published in March alongside the Estimates. The Treasury and Civil Service Select Committee (TCSC) broadly welcomed the proposals in Cm 375 in their Sixth Report for 1987-88 (HC 614). After consulting with other departmental Select Committees, however, the Public Accounts Committee (PAC) said in its Eighteenth Report for 1988-89 (HC 354) that they did not consider the deferral of the publication of departmental reports to March to be a satisfactory way of bringing the reports alongside the Estimates and urged the Treasury to examine the possibility of bringing forward the publication of both documents to January.

2. The Government replied to the PAC's Report on 19 July 1989 (Cm 747) pointing out that there is a conflict between the objectives of bringing departmental reports alongside the Estimates and the publication of financial information as soon as it is available. It undertook to consider further the timing issues raised by the PAC's Eighteenth Report.

3. This White Paper accordingly presents the Government's consideration of these issues and its proposals for future action.

Government Proposals

The timing of Departmental Reports

4. The Government recognises the force of the argument that the key information on public spending plans should be published as soon as it is available. As explained in Cm 747, this is achieved by the current publication timetable for the Autumn Statement, the Public Expenditure White Paper, and the Estimates.

5. The proposal in Cm 375 that departmental reports should be published at the same time as the Estimates, in March, was intended to meet both Committees' interest in closer alignment between the two sets of documents. In its 8th Report of 1986-87 (HC 98), the PAC suggested that alignment should be carried to the point of publishing information about the plans and the Estimates in a combined document. The Government noted in its response (Cm 177) that this would have implications for the timetable. While Cm 375 proposed to retain two separate documents, simultaneous publication was to be on the basis that the plans for the year immediately ahead would have been those agreed in the Survey, as modified by subsequent Estimates scrutiny. The proposal to publish departmental reports in March provided the minimum time needed to allow for the full reconciliation of the detailed figures in both sets of publications. However, in its 18th Report of 1988-89, the PAC attached more weight to the need to publish details of departments' expenditure plans as soon as practicable.

6. There is an inevitable conflict between the objective of publishing information as soon as it is available, and that of publishing departmental reports and Estimates simultaneously. For reasons set out in Cm 747, the Government believes that the effectiveness of Estimates scrutiny would be jeopardised if the publication of Estimates were to be advanced to January.

7. In reconsidering this issue, the Government has taken account of two developments since the publication of Cm 375. First, the changes announced in the White Paper "A New Planning Total" (Cm 441) mean that, in future, virtually all Supply expenditure will fall within the planning total. This will greatly improve the read-across between the public expenditure plans and the Estimates. Departmental reports will in future identify virtually all of the expenditure items which will be submitted to Parliament in the Estimates, and the reconciliations shown in each Estimates booklet will be more comprehensive.

8. Second, as explained in the "The Financing and Accountability of Next Steps Agencies" (Cm xyz), for many Government executive operations outturn informa-

tion in departmental reports will in future be supplemented by individual agencies' annual reports to Parliament. These reports will normally be made in the early months of each financial year, allowing the inclusion of outturn information relating to the financial year that has just ended. Agencies' reports will thus provide information for the activities they cover, both about financial results and about outturn and performance, at an earlier stage than departmental reports, whether these are published in January or March.

9. In the light of the PAC's views, and of these developments, the Government has therefore decided that a better balance between objectives could be struck by publishing departmental reports earlier than proposed in Cm 375, as far as possible retaining broadly the present timetable, at least for 1991. This timetable will, however, be kept under review in the light of any further comments from the PAC and TCSC and experience with the first round of departmental reports.

Estimates timetable

10. While the Government will continue to look for ways to advance publication of the Estimates, consistent with leaving sufficient time for their preparation and scrutiny, it does not expect to be able to advance the timetable significantly for the time being. It will continue to look for ways of improving the read-across between departmental reports and the corresponding Estimates.

The content of Departmental Reports ("The Common Core")

11. The Government has already made it clear that departmental reports will continue to follow a broadly uniform presentation of public expenditure plans and outturns, drawn from a common database and following the pattern of the departmental chapters in the 1989 White Paper. Information about this "common core" material is set out in the attached annex. Departmental reports will be jointly sponsored by the relevant Secretary of State and the Chief Secretary to the Treasury.

Conclusion

13. In the light of the PAC's views, the Government now proposes to publish departmental reports earlier than proposed in Cm 375, as soon as the relevant information is available. Estimates will follow as soon as possible thereafter. With the earlier publication of departmental reports, the plans published will be those agreed in the Survey and will not reflect the subsequent detailed changes resulting from Estimates scrutiny. Differences between plans and Estimates will be set out in the Estimates booklets.

14. For 1991, the intention is to follow broadly the same timetable as for the 1989 Public Expenditure White Paper and Estimates. The Government will keep these arrangements under review, in the light of experience with departmental reports and any further comments from the Public Accounts Committee and the Treasury and Civil Service Select Committee.

The Content of Departmental Reports

The Treasury's guidance to departments on the content of departmental reports makes the following points.

Common core: basic principles

2. Departmental reports will have two principal purposes: to present the Government's expenditure plans to Parliament and to report performance against previous plans. The reports should illustrate the annual cycle of planning, setting objectives and targets in relation to plans and evaluating subsequent performance against objectives and targets in reports, described in "Central Government: Financial Accounting and Reporting Framework" published by the Treasury in December 1988.

3. Within this framework, the move to separate departmental reports will allow departments more freedom to determine the style and content of their reports. Departments will be able to choose the colour and quality of the paper and bindings used; the size and style of print font; the style and layout of the text and the headings; the nature of the illustrations, photographs, charts, and other diagrams; and the extent of new material introduced into the reports. These choices will of course be influenced by discussions with their own Select Committees about the content of the reports, and with HMSO about the detailed timetable and the cost and price of each report.

4. In order to fulfil their essential purpose of reporting the Government's expenditure plans to Parliament, the documents will need to contain certain common elements. The TCSC, in its Second Report (Session 1987-88) recommended that:

"The basic financial information in these annual reports would follow a standard pattern agreed with the Treasury, and all departments should give the fullest possible information on objectives, targets and performance indicators and on their success in meeting these."

5. The aim is to enable Parliament to put together a comprehensive picture of public expenditure across all programmes and departments, and to relate the plans set out in the departmental reports to the Estimates and the eventual outturn. The PAC also attaches great importance to high standards of financial reporting. The PAC's Eighth Report (Session 1986-87) set out the principles of consistency, relevance, and reliability, and recommended that the Treasury draw up and operate criteria to reflect these principles. (This was done in the Treasury publication referred to in paragraph 2 above). The same report stressed the need for clarity and simplicity in the read-across from the PEWP to the Estimates.

6. The Government accepted the need for a common core in "Financial Reporting to Parliament" (Cm 375). The TCSC's Sixth Report, Session 1987-88 reiterated the need for a common core, and listed the components which it regarded as minimum requirements.

7. Against this background, the following section sets out Treasury proposals for the material to be included in the common core. It falls into two groups. Material in Section A must, in the Treasury's view, be presented either in a common format or at a common location, or both, in order to enable Parliament to be able to put together a comprehensive picture. Section B contains essential material, which must appear somewhere in the reports, though the format and location will be left to Departments' discretion.

Components of the common core

8. Each report must, in general, contain a description of the Department's main responsibilities, and of the public expenditure programmes for which it is accountable. The reports should therefore include the following components.

A Components which must have a standard format and/or location within the report.

(i) *Cash plans.* As is now the case with the departmental chapters of the Public Expenditure White Paper, there will be a table in a standard format, situated at the very beginning of each report. The table will be produced by the Treasury from the Public Expenditure Survey database. As now it will cover a nine-year period, spanning five outturn years, the current year, and the three plan years, and show the following information:—

- (a) central government's own expenditure (distinguishing between voted and other expenditure);
- (b) central government grants to local authorities (identifying most specific grants and EC current grants as separate items);
- (c) other elements of central government support for local authorities as appropriate (eg non-domestic rate payments, credit approvals);
- (d) financing requirements of public corporations (distinguishing between voted and other items).

The breakdown of voted expenditure in these tables will continue to reflect the structure of the Votes as presented in the Estimates. This may change, over time, to reflect policy changes and changes to the Estimates structure.

(ii) *A brief statement of the department's overall aims and objectives,* quantified where possible, giving ordered priorities and listing, where appropriate, the criteria by which policy changes are assessed (see for instance Cm 615 paragraph 4).

(iii) *Running costs and manpower* including reference in the text where appropriate to provision agreed on the basis of management plans covering the full Survey period; any areas of activity agreed for net control; explanation of any significant changes to the plans compared with the previous year; and, for the Estimates year, any significant changes to either cash or manpower provision compared with figures published earlier in the year. The tabular presentation of running costs and manpower information should follow that agreed for the 1989 PEWP.

(iv) *Local authority expenditure.* For those departments where it is relevant, a table should be included showing local authority expenditure for the five outturn years and the current year. The table should as a minimum give a functional breakdown for current and capital expenditure separately.

B Essential features of the report as a whole

(i) *Evaluation, output and performance information.* The report should contain information about the achievements of all the main departmental activities, including achievements against targets, quantified wherever possible. This should:

- (a) make clear how the activities relate to the stated aims of the department;
- (b) cover both programme expenditure and running costs;
- (c) provide information on effectiveness, including the results of evaluation. For some programmes it may be necessary and useful to give intermediate measures. Where possible, information on final outputs should be displayed.
- (d) indicate the efficiency of the programme ie relate the achieved benefits to the input costs (in terms of expenditure and, if appropriate, manpower). This can draw on the results of evaluation. Information about unit costs is particularly valuable.

As well as reporting on achievements, departments should provide targets for future years, and set out the information in such a way that data for outturn years can be readily compared with previously published targets for those years.

(ii) *Major initiatives to secure better value for money* should be described, setting out the objectives of each initiative, what has been achieved to date, and what is planned to be achieved. This should cover aspects of the department's personnel policies relevant to securing better value for money from running costs; and could also cover, where appropriate, relocation and initiatives to improve energy efficiency.

(iii) *Next Steps Agencies.* In the case of Agencies, Departments should identify separately gross and net cash provision, manpower and, where appropriate, running

costs. They should also provide for each Agency a description of its aims and objectives and the value-for-money improvements planned for the future and achieved in the past, related, where possible, to targets set in previous years. Departments should indicate for each Agency the main features of its financial regime (eg gross or net control, trading fund). The amount of detail required should be judged case by case. Cross references should be given to Agencies' separately published reports and accounts for fuller information. (Cash provision, running costs and manpower for Next Steps Agencies will be included in the material at A(i) and (iii)). Departments should also report briefly on the progress of their Next Steps implementation programmes.

(iv) *Information on public corporations* should include the provision for their financing requirements, and should also include:—

- (a) objectives set by the Government and by the industry;
- (b) performance against external finance limits, (EFLs). Performance should also be related to agreed targets, especially formal financial targets and current cost return on capital, aims for costs, targets set in corporate plans, performance reviews, efficiency studies and published reports;
- (c) outturn and plans for internal resources and external finance, including Government grants; revenue forecasts and factors determining revenue and costs; and comparisons of planned expenditure with outturn;
- (d) investment plans;
- (e) current outlook; and, where relevant, progress to privatisation.

(v) *Information on Non-Departmental Public Bodies (NDPBs)*. Departments currently include information on many of their sponsored bodies in their White Paper chapters. At least an 'equivalent' level of detail should be retained in future. Similar treatment may be appropriate for any body which receives significant public funding, including some which are not classified as NDPBs.

(vi) *Expenditure on publicity and advertising*. The TCSC (Seventh Report, 1987-1988) recommended that departmental reports should give information about the costs of major publicity and advertising expenditure. Departments who spend £½ million or more a year on paid UK publicity should include this information in their departmental reports.

(vii) *Explanations of changes in plans from the previous White Paper*. As recommended by the TCSC, there should be an explanation of any differences between plan and forecast outturn for the current year.

(viii) *A cross reference to the relevant Estimates booklets*

(ix) *A bibliography along the lines of those currently included.*

(x) *Explanation of recent significant changes in the classification or allocation of expenditure.*

(xi) *Reference to any significant receipts from the EC in respect of the department's programmes.*

(xii) *Description where relevant of the split of responsibility and expenditure between the Department and the territorial departments.*

(xiii) *In the case of the territorial departments, a description of the block arrangements.*

