



## **Public Administration and Constitutional Affairs Committee Inquiry into government accounts**

### **Written evidence submitted by The Taxpayers' Alliance**

#### **Executive summary**

- Departmental Annual Report and Accounts (ARA) ought to provide taxpayers with a clear statement of how their money is being spent and what they're getting for it.
- Most ARAs are currently dense and confusing for outsiders, lacking in meaningful output and performance measures, and bulked out with material not helpful in scrutinising value for money.
- HM Treasury's 2014 proposals for restructuring ARAs offer an attractive way forward.
- The Performance section of the proposed new ARA should be structured around the services delivered to taxpayers rather than around departmental organisation. Output and performance numbers should appear alongside cost indicators allowing an assessment of overall value. Where possible benchmark comparisons should be included.
- Output, performance, and cost indicators presented in ARAs should correspond to those used in internal management information systems.

The TaxPayers' Alliance is Britain's grassroots campaigning group dedicated to reforming taxes, cutting spending and protecting taxpayers. We regularly conduct investigations into value for money in public spending.

1. In an age of austerity it is more important than ever for government to demonstrate its services deliver value for money. Departmental Annual Report and Accounts (ARA) ought to be a key communication, providing taxpayers with an easily accessible statement of how their money is being spent, and what they're getting in return. However, although improvements have been made over the years, most ARAs remain dense and confusing for outsiders, lacking in meaningful output and performance measures, and bulked out with material that is not relevant to the central issue of value for money. There are plenty of ideas for reform, and it's well past time to see them implemented.



## How useful are current ARAs in scrutinising government?

2. Taxpayers are primarily interested in the delivery of final services, rather than the way that organisational responsibilities and budgets are split within departments and across Whitehall. So the first thing the ARA needs to provide is a clear statement of what final services are being offered (eg primary education, secondary education, etc), what standards we should expect, and what policy priorities are in place. The front end of the report should be focused on those services, rather than the department's organisational structure.
3. Most ARAs now include this material to some extent, but its presentation varies hugely. Taking the 2014-15 ARAs for the three biggest spending departments (DWP, Health, and Education), only the DWP report has this material clearly set out right up front. It includes a statement of its six business priorities, and an assessment of its performance against those priorities, backed up with easily understood charts and tables showing the key statistics. It's a good example of how an ARA can show taxpayers what they're getting for their money.
4. In contrast, the Departments of Health and Education ARAs have lengthy sections on organisation and agencies before they get into service definition and delivery. Their presentational style of the Education ARA in particular is more like an internal Whitehall report than something designed to be read by outsiders. The DWP format and style is a better template.
5. To properly scrutinise value for money, we need quantified information on both service costs and service outputs, and we need to be able to link the two. In practice, ARAs are weak on both counts. Output measurement continues to be problematic for most public services, given that they are generally provided free at the point of use with no direct market valuation of total output. So the most we get from departmental ARAs is information on performance against measurable output targets, such as DWP's increase in the number of disabled people in work, or DoH's referral and diagnostic waiting times. These are certainly useful measures to have, even though they are only partial measures of overall service delivery. And of course we have to remember that success in hitting partial performance targets can easily hide failure on things that are not targeted.
6. Unfortunately not all ARAs provide even these partial output indicators. For example, pupil attainment is a critical issue for most parents using state schools, yet the Department for Education's ARA contains just one opaque paragraph on the subject, and that only for disadvantaged pupils:

*At age 11, attainment in reading, writing and maths for both FSM pupils and looked after children increased between 2011/12 and 2012/13, and the attainment gap with their peers narrowed (Impact indicators 7 and 10). At age 16, attainment in GCSE English and maths for both FSM pupils and looked after children also increased between 2011/12 and 2012/13, while the attainment gap*



*between looked after children and their peers narrowed (Impact indicators 8 and 11). These results show solid progress in raising attainment and closing the gap at key stage 2 while key stage 4 is more challenging. (DfE ARA 2014-15, p 2.63)*

That's also a classic example of why these reports are not as useful as they could be: they tend to explain operations in terms that cannot be readily understood by the average taxpayer.

7. In a similar vein, ARAs rarely have much to say about policy failures, even when they're of major public concern. A good example is the Home Office failure to deliver the government's promised reduction in net immigration. There is widespread concern and dissatisfaction about this, yet the HO ARA doesn't acknowledge the scale of the failure or provide a proper explanation. True, it shows the figures, and lists a considerable number of activities underway in relation to migration, but such a high profile failure demands much more direct scrutiny. The perception is that ARAs are more interested in promoting good news stories than in presenting a rounded picture.
8. On the costs side, again, it would be helpful to have figures analysed around services (eg the cost of a secondary school place), rather than around directorates with mysterious titles like Education's ESD and CSDSD. Some departments do provide some analysis along the preferred lines – for example, the Home Office ARA gives figures for cost per passport issued, and cost of policing per head. But in general, cost information is given only at the level of public spending aggregates and departmental group entities, limiting its usefulness in assessing value for money at the service level.
9. ARA's also suffer from a lack of useful context in assessing value. While it's true that there are some time series comparisons (eg crime rates and ambulance waiting times), there is virtually nothing by way of comparison with public services overseas, or private sector provision in this country. For example, there is now considerable international benchmarking information available for schools provision, yet it gets no mention in the Education ARA.
10. One feature that is very useful in most ARAs today is the provision of clickable links to more detailed data held elsewhere on the departmental or ONS websites. It's a facility that ought to make it much easier to slim down the ARA itself so that it focuses on main issues, with supporting data and control reports held elsewhere.
11. The overall conclusion is that today's ARAs do have their use in scrutinising government, but they're of variable quality, many are published ten to twelve months after the year under review, and they are certainly not the first stop for those wishing to assess value for money.



**Which parts of the accounts are used by those scrutinising the Government?  
Which parts are not?**

12. As things stand, the format and content of ARAs varies considerably between departments, but taking the DWP ARA as one of the better examples, the parts which are useful for outside scrutiny are:

- Performance overview
- Performance story
- Performance analysis (on service provision, less so on environmental and diversity provision)
- Staff information – including numbers, pay, and absenteeism.
- Remuneration report
- Control issues
- Report by Comptroller and Auditor General (including in DWP's case the analysis of error and fraud)
- DWP expenditure, including notes to the accounts
- Annex 1: Core tables

Much of the information given is available elsewhere, but it is helpful to have it brought together in one place with an accompanying commentary.

13. The parts which are not so useful in an ARA are lengthy descriptions of departmental governance structures (as in the DfE ARA), and the sections on environmental and diversity policy.



## How could Departmental ARAs be improved?

14.14. HM Treasury's 2014 Command Paper<sup>1</sup> sets out a promising way forward. It proposes restructuring ARAs into three main sections:

- Performance – “telling the story”
- Accountability; and
- Financial statements

The accountability section is aimed mainly at meeting the requirements of Parliamentary scrutiny, including governance, remuneration, and budgetary compliance. The financial statements section is also mainly focused on compliance, in this case providing an externally audited statement of the department's financial condition. These are both important elements of annual reporting, but it is the proposed performance section that would be the key to scrutinising value for money.

15. HM Treasury proposes that the performance section should comprise two parts. The first would provide an overview, with sufficient information to understand the organisation, its purpose, the key risks to the achievement of its objectives, and how it has performed during the year. The second would be a full performance analysis, explaining how the department is measuring its performance, and setting out the results with a commentary. As noted earlier, some departments are already doing this to some extent, and it could transform value for money scrutiny if it became standard practice in all ARAs.

16. But performance analytics alone only take us so far. In judging value for money we need to assess performance alongside the relevant cost information. And since most departments are running an array of policy programmes, aggregate departmental spending information is not enough. What we need to see are the individual programme costs (eg the cost of a primary school place against pupil achievement measures, the cost of disadvantaged pupil support against measures of the achievement gap, etc).

17. To make value judgments we also need context – a frame of reference. HM Treasury wants to see historic trends included in the ARAs, and that's welcomed. But in many areas of departmental activity there are additional benchmark comparisons that could be included. For example, the OECD now produces international comparative data on many public services, including health and education. Anyone scrutinising value for money here in the UK is going to be using those comparisons, and it would be useful to include them in the ARAs alongside an accompanying commentary.

18. It's important that the cost information presented in these restructured ARAs is consistent with the departmental spending information available elsewhere. As noted in the HM Treasury proposal, government spending data exists on a number

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<sup>1</sup> Simplifying and Streamlining Statutory Annual Reports, Cm 8905



of different bases, which can be very confusing for those beyond the world of government accounts. Although the Treasury is keen to promote the use of Whole of Government Accounts, outside scrutiny mainly focuses on spending as defined in Total Managed Expenditure. Partly that's because it's more familiar, but also because it's available in a more timely way and that seems unlikely to change anytime soon.

## **ARAs and management information systems**

19. As discussed, for these restructured ARAs to become effective tools in scrutinising value for money, their performance section must be focused on service programmes, they must include meaningful measures of output and performance, and they must place those measures alongside measures of programme cost. In short, they must include many of the pieces we'd expect to find in a good management information system.
20. Historically, Whitehall's management information systems (MIS) have been weak, and attempts at reform have had little lasting success. Back in the early 1970s the Heath government introduced the Planning, Programming and Budgeting System (PPBS), originally developed for the Johnson administration in the United States. PPBS was not described as an actual MIS, but it sought to do number of things that have since become very familiar in MIS frameworks. First, it focused on programmes rather than high level accounting aggregates, with the idea that government needs to compare programme costs against programme outputs, and measure results. Second, it attempted to identify clear ownership of specific programmes, getting away from the Big Black Pot of departmental spending where nobody's clear who's responsible for what. Third, there was a broad notion that budgeting was to be zero-based: i.e. that you needed to be able to justify spending plans by reference to outputs and outcomes, not simply rely on a percentage increase from last year's budget.
21. In those pre-PC days, spending departments were obliged to put considerable effort and resources into PPBS, producing six-monthly information packs for senior management and HM Treasury. Unfortunately, the system never got properly embedded either into the way departments managed themselves, or into their budget negotiations with the Treasury. Developing meaningful output measures proved more challenging than hoped, and it became clear that senior departmental managers had never really bought into the project, and were only running the numbers because of orders from Heath's Number Ten. PPBS became a superfluous system running alongside the normal PESC process, but duplicating rather than informing it. The entire thing got scrapped during the 1970s spending cuts.
22. The PPBS project is worth recalling because a very similar fate seems to have befallen all subsequent attempts at reform. In the 1980s Michael Heseltine developed the Management Information System for Ministers (MINIS). His system provided details of the financial and human resource allocated to each departmental



programme, as well as the outcomes and impacts – information designed to ensure that a department's resources were properly matched to its priorities. As he put it:

*Government's business planning process must be underpinned by effective management information, monitoring and accountability. Departments must have a tighter grip on how they spend their budgets and the connection between cost and output, and output and impact. This is how large corporations are managed. Departments should be run in the same way.*

Unfortunately he wrote that in 2012, three decades after he first attempted to get MINIS implemented across Whitehall.<sup>2</sup> Whether it's because Whitehall lacks the skills, or the enthusiasm, or the incentive, it has so far proved impossible to embed a sustainable consistent MIS throughout government departments.

23. However, the need for a proper functioning system has not gone away, and 2012 also saw the publication of the Read Report.<sup>3</sup> This re-examined the current state of government management information, and concluded that improvement was urgently required. It then laid out a comprehensive framework for a central government MIS, right down to detailed templates for its Quarterly Data Summary (QDS). Cost, output, and performance data are brought together in a logical programme structure, there's year-on-year comparison data, and standardisation to facilitate cross departmental efficiency comparisons on common items such as staff and estate costs. The report also laid great stress on the vital importance of senior level ownership and accountability for the data.
24. It is a compelling package, but from outside Whitehall it's unclear how much of it has been implemented: the suspicion is not much. In fact, viewed from outside Whitehall, things seem to have slipped backwards. For the first couple of years of the Coalition, departments were publishing Quarterly Data Summaries providing at least some of their internal management information, which the TaxPayers' Alliance and other external commentators were using to scrutinise various areas of public spending<sup>4</sup> However, despite the heavily promoted "Transparency Agenda", the Read Report recommended that departments cease publishing their QDS statements, and henceforth performance indicators and ratios should not be published routinely. Which was highly disappointing.
25. If ARAs are to provide a meaningful analysis of departmental performance, it's vital that they include the performance measures the departments themselves use in managing their operations. Of course, we all realise that these measures are themselves often weak and in need of improvement. But keeping them secret undermines public confidence and can only damage efforts to improve value for money. Moreover, publication opens the performance regime itself to public scrutiny,

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<sup>2</sup> No Stone Unturned, 2012

<sup>3</sup> Practical Steps to Improve Management Information in Government, Dr Martin Read, 2012

<sup>4</sup> See for example Departmental Estates Costs, TPA Research Note 119, October 2012



allowing outsiders to suggest improvements, and incentivising departmental managements to properly engage.



## **Summary suggestions for improving ARAs**

26. ARAs could and should be a key communication with taxpayers showing where their money is going and what they're getting in return. HM Treasury's 2014 proposals for restructuring ARAs are attractive, and should be implemented. The proposed performance section of the ARA should be focused on the specific services delivered to taxpayers, and augmented to include cost as well as output measures.
27. More than anything, there needs to be a determination to see things through. For at least half a century we have seen successive attempts to improve performance reporting fizzle out after a couple of years. Public sector output measurement is often difficult, but that is not an excuse for giving up. And even with current measures, a determined focus on reporting service, performance and value would make ARAs much more useful to taxpayers.

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