

## GUIDANCE ON NEXT STEPS AGENCY ANNUAL REPORTS

### ***Introduction***

1. This note provides guidance on the coverage and content of Agency annual reports. It responds to the introduction of resource accounting and to other recently emerging policy priorities. It has been prepared in consultation with the Treasury and supersedes their guidance issued in 1993 and subsequent Cabinet Office guidance issued in 1998. Some of the guidance is concerned with best practice: but the points indicated thus in the text are mandatory. The guidance is intended to meet the needs of agencies that have existed for a number of years and those which are newly established.

2. One of the key objectives of the Next Steps initiative is improved reporting by Agencies to Ministers, Parliament and the wider public. All Agencies are therefore required to provide annual reports to Ministers and thence Parliament, as explained in paragraph 5.2 of the 1989 White Paper *The Financing and Accountability of Next Steps Agencies* (Cm 914). The need for clear and consistent reporting was reinforced in July 1998 by the *Modern Public Services for Britain* White Paper<sup>1</sup>. In view of the Government's commitment to openness, and of the benefits to Agency operations of presenting an accessible and informative account of the work done by an Agency, Agencies may want to consider publishing information in their Reports that is additional to mandatory requirements. They should also take account of the time, effort and cost involved and ensure that this is commensurate with the general benefit to be derived.

3. *To provide a full picture of financial performance and future prospects a copy of the audited accounts must be included with the report when this is published.* Agencies (including Trading Funds) should prepare their accounts in accordance with the relevant Accounts Direction.

### ***Applicability of the Guidance***

4. This guidance applies to all Agencies, both supply-financed agencies and Trading Funds.

### ***Timetable***

5. Agency annual reports will be published and laid before Parliament. The relevant dates for doing so are as follows:

- Agencies which are parts of departments - by the Summer Recess after the financial year end;
- Agencies which are whole departments - by 31 October after the financial year end, in accordance with the Resource Accounting Manual; and
- Agencies which are Trading Funds - for preference by the Summer Recess after the financial year-end, but in any case no later than the end of November following the financial year-end.

6. The Chief Executive is responsible for producing and personally signing the report, consulting interested parties as necessary and obtaining the approval of the responsible Minister to publication. When producing their first report, all Agencies should discuss at the outset the proposed coverage with their parent department. They may also wish to consult the Agency Service Delivery team in the Cabinet Office.

7. The provision of publicly available information to aid transparency is to be desired and the requirement to publish an annual report does not prevent Agencies publishing information at other times in accordance with the requirements of the Code of Practice on Access to Government Information<sup>2</sup> copies of which are available at <http://www.lcd.gov.uk/foi/ogcode981.htm>.

Agencies may also, for example, want to produce a simplified version of their annual report concentrating on their performance against targets as a means of making the information more readily available to the public. This simplified version could also be made available to staff. In addition, many Agencies operate websites that provide suitable places for displaying information about their activities and performance.

8. In addition, using the rights of the Freedom of Information Act 2000, any member of the public will be able, from January 2005, to apply for access to information held by bodies across the public sector, including executive agencies. Guidance on the background and content of this Act and how to respond to information requests is available at: <http://www.lcd.gov.uk/foi/foidpunit.htm>.

---

### **Coverage of Agency annual reports**

#### *General*

9. The annual report provides the Chief Executive with the opportunity to inform interested parties about the Agency and its achievements in an attractive and readable way. It is the place for fleshing out and commenting upon the financial facts and other information that is required by the relevant Treasury guidance on accounts. It should complement the Corporate and Business Plans in reporting progress towards the goals there set out.

10. There is a large area of discretion for each Agency about the extent of information to include and the way in which it is presented. But there needs also to be some consistency of coverage of core performance data in order to ensure that basic information needs are met and to help readers recognise the basic layout and find their way around. *The main body of annual reports must, therefore, include the following:*

- *the Agency's aims and objectives* (paragraph 10);
- *an annual review of activity* (paragraphs 11 and 12);
- *performance against targets* (paragraphs 13 to 21);
- *information on commercial activity with respect to Selling Government Services into Wider Markets* (paragraph 25); and
- *information on future strategy* (paragraphs 26 and 27).

### *Aims and objectives*

#### *11. The annual report must set out an Agency's aims and objectives.*

These should be the same as those set out in an Agency's Framework Document. In the case of Agencies which are Departments in their own right the aims and objectives identified in the Comprehensive Spending Review should be used if the Framework Document has not yet been revised to reflect any changes.

### *Annual review of activity*

12. The annual review should be set out in the context of the Business Plans and longer term goals which the Agency will have set at the start of the year to which the annual report relates. As part of this, Agencies must:

- *Review the main areas of activity, and provide a commentary on the year's achievements and changes in efficiency, quality (including quality of service) and throughput (where relevant), giving reasons for any significant changes or developments.* As part of this, Agencies may wish to provide examples, where appropriate, in the form of case studies to illustrate particularly noteworthy achievements - a sample of these may be used in any report on the aggregate performance of Agencies.
- *Comment upon financial performance (such as the Agency's investment programme, the extent to which the Agency has successfully operated within its resources) and manpower aspects (such as employee relations).*
- *Provide the names of the key staff/Management Board; any non-employee members of management or advisory boards; and the auditors.*

13. As part of the review, Agencies may also want to set out other achievements, for example, the use and development of staff, (including Investors in People accreditation); or where relevant, in research and development; and discuss the business area and "market" in which they operate, and their relevance to, and impact on, their "customers" in the widest sense. Annual reports may also provide an appropriate vehicle for the publication of the information on recruitment required by Part III of the Civil Service Commissioners' Recruitment Code.

### *Performance against targets*

14. *All Agency annual reports must provide full details of performance against all Ministerial targets over the past year.* Ministerial targets are set by the responsible Minister and should be published in a PQ answer.

15. Ministerial targets reflect current Ministerial priorities, but they may not give a complete picture of an Agency's performance. For reasons of public accountability, it is important that annual reports should give a complete picture, so it is likely that they will also need to include information on performance against internal management targets and other performance measures, especially where these fill gaps in the coverage of Ministerial targets. *All performance information must be correctly calculated, reliable and fairly presented.* The primary responsibility for this lies with Chief Executives. They must have confidence in a properly managed system of internal control.

16. *Performance against Ministerial targets must be brought together in one place in the report, prominently displayed using the format shown in the attached Annex to this guidance.* This information may be used in any report on aggregate Agency performance. *This information must be clearly distinguished from other targets and standards, for example, internal management targets. The report must explain the reasons for any significant variation between performance achieved and targets set.* Providing information as per the Annex on performance against Ministerial targets which relate to the financial performance of the Agency as a whole does not remove the requirement for such information to be covered by the audit certificate by including it in the notes to the formal accounts.

17. For the purpose of providing information as per the Annex, Agencies *must categorise performance against Ministerial targets under the following common headings, as far as possible:*

- *efficiency;*
- *quality (including quality of service);*
- *financial performance; and*
- *throughput.*

It is not necessarily the case that all Agencies should have Ministerial targets that fit under each of the four headings. When deciding on the appropriate classification for their targets, Agencies should have in mind the definitions set out in the Treasury guide to setting targets and measuring performance<sup>3</sup>. The Cabinet Office team will also be happy to advise on classification under one of these headings, especially where Agencies believe a wider interpretation of the headings is appropriate in their case (*any targets which cannot be classified under the four headings must be classed as "other"*).

18. Apart from providing information in accordance with the Annex, Agencies are free to report on their performance against Ministerial targets using any other form of presentation or classification if they so wish.

19. For Agencies that are Trading Funds, information on financial *performance must include setting out debt servicing and public dividend, capital dividend payments.*

20. In judging Agency performance, comparative information over time is particularly valuable. *Agencies must therefore include at least a three year summary of past results against Ministerial targets (that is, current year, plus two previous years), or for a lesser period where they have not been established for three years.*

21. *Where the achievement of targets affects the pay of Agency staff, or where non-financial targets are of particular importance, the performance against targets must be subject to validation, external to the Agency.* In all other cases it is left to the discretion of the responsible Minister to decide whether external validation should be required. Decisions on validation procedures should be taken by the Minister concerned in the light of all the circumstances and, where relevant, the arrangements for external validation should be described in the Report.

22. Although Ministers should have published their Ministerial targets for the coming year in Hansard by the end of April (see Cm 1761), *these targets must be repeated in*

*the annual report since the following year's annual report will need to report on performance against them. Where Ministerial targets are set for more than one year, those for subsequent years must also be recorded in the Report*

### ***Selling Government Services into Wider Markets***

23. Government should maximise the value it receives from its assets. Where appropriate, this should include exploiting their commercial potential. Where Agencies have carried out commercial activity under the relevant *Treasury guidance on Selling Government Services into Wider Markets*<sup>4</sup>, their *Annual Report* must include a full account of such activity. The Treasury guidance is available at:

[http://www.hm-treasury.uk/Documents/Public\\_Spending-and-Services/Guidance\\_for\\_Government\\_Departments/pss\\_ggd\\_wider.cfm](http://www.hm-treasury.uk/Documents/Public_Spending-and-Services/Guidance_for_Government_Departments/pss_ggd_wider.cfm)

This should include information about the scale of resources devoted to significant projects (or groups of projects which together are of a significant size); value for money information about the use of public sector assets; and indicators of commercial performance. Where relevant, Agencies may also report details of any commercial activity which does not fall within the scope of the Selling Government Services into Wider Markets policy.

### ***Information on future strategy***

24. As well as providing information on past performance, annual reports are also an appropriate vehicle for setting out information on an Agency's future strategy and on the steps an Agency is taking to develop and improve its business, building on past achievements. This is important, since Corporate and Business Plans are not always published, for example, if they contain commercially sensitive information. *In doing so, annual reports must include the following:*

- *Information on how an Agency intends to improve its efficiency over at least the coming year in order to meet its targets in this respect.* Efficiency continues to be a key priority of the Next Steps initiative. As set out in the July 1998 "Modern Public Services for Britain" White Paper, greater efficiency provides a key means of getting the best return from the investment made in public services. The annual report gives Agencies the opportunity to discuss the steps they intend to take to achieve this.
- *A statement of an Agency's strategy (including financial and manpower planning aspects)* in those cases where an Agency does not publish (because of sensitivity constraints) a forward plan analysing its business prospects and future strategy, as approved by the responsible Minister. Even where a plan is published, Agencies may wish to include in the Report a short statement on strategy to help the reader understand the context in which the past year's results are reported.

25. In addition, Agencies may also wish to provide other information on how they are endeavouring to develop and improve their business, for example:

- through involvement in benchmarking and use of the Business Excellence Model
- involvement in Public Private Partnerships

- other forms of partnership working with other Agencies, other parts of the public sector, or the private sector; and
- progress towards Investors in People accreditation.

### **Further information**

26. For further information about any aspect of this guidance please contact the Agency Service Delivery Team, Admiralty Arch on 276 1715/1716.

27. This guidance may be revised and updated from time to time as necessary.

<sup>1</sup> HM Treasury, *Modern Public Services for Britain: Investing in Reform, Comprehensive Spending Review: New Public Spending Plans 1999-2002*, July 1998, Cm 4011, The Stationery Office Ltd, ISBN 0 10 1401124.

<sup>2</sup> *Code of Practice on Access to Government Information* - second edition (1997)

<sup>3</sup> HM Treasury, *Executive Agencies: a guide to setting targets and measuring performance*, 1992, HMSO, London, ISBN 0 11 560040 X

<sup>4</sup> HM Treasury, *Selling Government Services into Wider Markets Policy and Guidance Note*, July 1998

Civil Service Corporate Management and Reform, Cabinet Office, April 2002,

### **Annex**

#### **FORMAT FOR THE PRESENTATION OF INFORMATION ON PERFORMANCE AGAINST KEY MINISTERIAL TARGETS AND MILESTONES**

<b>KEY MINISTERIAL TARGETS</b>		<b>TARGETS, OUTTRUNS &amp; ACHIEVEMENTS</b>	<b>TARGETS FOR</b>
		200aa-bb 200bb-cc etc	20ff-gg
<b>Efficiency</b>			
Description of each target in this category	Target Outturn Target Outturn Etc	<i>Information for at least 3 years (i.e. current year, plus 2 preceding years) or for a lesser period where the Agency has not been established for 3 years, on the target set and the outturn achieved</i>	<i>Information on the targets set for the year following that to which the annual report relates.</i>
<b>Throughput</b>			
Description of each target in this category	Target Outturn Etc	<i>As above</i>	<i>. As above</i>

<b>Quality</b>			
Description of each target in this category	Target Outturn Etc	<i>As above</i>	<i>As above</i>
<b>Financial performance</b>			
Description of each target in this category	Target Outturn Etc	<i>As above</i>	<i>As above</i>
<b>Other</b>			
Description of each target in this category	Target Outturn Etc	<i>As above</i>	<i>As above</i>
<b>PERFORMANCE AGAINST MILESTONE TARGETS 19EE-FF</b> <i>(the year to which the annual report relates)</i>			
<i>Description of each milestone target and whether it was achieved.</i>			
<b>ADDITIONAL KEY TARGETS 19FF-GG</b> <i>(the year following that to which the Annual report relates.)</i>			
<i>Description of any new or changed key Ministerial targets which apply for the year following that to which the annual report relates.</i>			