



Financial Reporting Advisory Board Paper

Simplifying and Streamlining Central Government Annual Report and Accounts – Detailed design proposals

Issue:	<p>HM Treasury is currently undertaking a project aimed at simplifying and streamlining the presentation of the statutory annual reports and accounts produced by central government entities. The aim is to better meet the needs of the users of the accounts and, where appropriate, to remove unnecessary burdens from the preparer community.</p> <p>Detailed design work to enable a Command Paper to be produced prior to summer recess has been undertaken and proposals are currently with the Parliamentary Scrutiny Unit, the National Audit Office, and other government departments for final comment.</p>
Impact on guidance:	Guidance will be updated to reflect changes
IAS/IFRS adaptation?	Yes – with respect to financial statement presentation
Impact on WGA?	No
IPSAS compliant?	To the extent IPSAS is compliant with IFRS.
Interpretation for the public sector context?	Yes – with respect to financial statement presentation
Impact on budgetary regime?	No
Alignment with National Accounts	N/A
Impact on Estimates?	No, although there are proposals for the format of the Statement of Parliamentary Supply presentation to change.
Recommendation:	That the Board note and comment on the detailed design proposals that are to be put to Parliament in a Command Paper and which will, subject to Parliament's views, be included in the 2015-16 FReM.
Timing:	Changes are expected to be introduced in the 2015-16 FReM. The Command Paper will be laid before Parliament prior to summer recess and due process consultation will be undertaken during the summer.

DETAIL

Background

1. The overall purpose of the Simplifying and Streamlining Annual Reports and Accounts project is to simplify and streamline the presentation of the statutory Annual Reports and Accounts (ARA) produced by central government entities so as to better meet the needs of the users of the accounts and, where appropriate, to remove unnecessary burdens from the preparer community. At FRAB 120 the Board was provided with an update of progress since the December 2013 meeting and views were sought on proposals for the more detailed design of future reporting requirements.

2. This paper provides the Board with an overview of the detailed design work that has been undertaken to enable a Command Paper to be produced prior to Summer Recess and the proposals that are currently with other government departments for final comment.

Reporting vision

3. The detailed proposals are based on a reporting vision that is focussed on ensuring that the ARA are providing information about the reporting entity that is useful to Parliament and the wider user community for accountability and decision-making purposes. It also aims to ensure that the ARA and other statutory and non-statutory reporting requirements including the Estimates, Mid-Year Reports and Whole of Government Accounts become more integrated, allowing users to better track financial and non-financial information and performance throughout all these reporting formats.

4. HM Treasury is seeking to ensure that improved reporting plays its part in wider changes that are aimed at improving financial and non-financial management more broadly in central government. The Review of Financial Management in Government has highlighted that while there has been a necessary focus in recent years on spending control and inputs, there has been less focus on defining and measuring outputs and outcomes. By giving reporting entities greater freedom to focus on what matters to them and how they define success in their ARA, it is envisaged that the information provided in those reports will become more output and outcome focussed. This will not only allow Parliament to better hold those charged with governance to account but it will also hopefully ensure entities are themselves more focussed on delivering what adds real value in their operations.

5. As entities are given more scope to decide on how they report based on what is important to them their will necessarily be divergence in reporting, with different Departments electing to focus on different areas based on their operations, statutory responsibilities, and where it is they are seeking to add value. With a move towards more user focussed reporting, HM Treasury also expects this to necessarily be an iterative process with reporting changing over time based on feedback from key users such as Parliamentary Committees.

6. While there will, therefore, be less focus in the future on mandated reporting requirements there are still some key reporting requirements that HM Treasury will expect Departments to meet. These are mostly related to key accountability and governance disclosures, where statutorily or centrally determined practices and codes have been put in place. They also relate to the format of the financial statements, where in order to meet both the needs of IFRS and to improve operational efficiency across central government a set format for the primary statements and associated notes is required. HM Treasury will therefore continue to set the overall high-level structure of the ARA.

Detailed proposals

7. As noted at FRAB 120, the detailed proposals have been designed around a restructuring of the traditional 'front-half' annual report and 'back-half' financial statements into three more integrated reporting requirements based on:

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

Performance – telling the story

8. The purpose of the performance section is to “tell the story” of the reporting entity in a way that meets user criticisms that the current ARA lack an overall narrative and are difficult to understand. It provides information on the entity, its main objectives and strategies and the principles risks that it faces. It will complement, supplement and provide context for the financial statements, with the intention that the information in the overall ARA be integrated to provide a cohesive document.

9. The performance reporting requirement will require entities to produce two sections – an “Overview” and a “Performance analysis”.

10. The purpose of the “Overview” is to give the user a short summary that provides them 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. Effectively this summary document should be enough for the lay user to not need to look further into the rest of the ARA unless they were interested in further detail or had specific accountability or decision making needs to be met.

Section of Overview	Purpose
Minister/Chief Executive statement	Gives the most senior individual in the organisation an opportunity to present the report and give their perspective on the performance of the organisation over the period.
Statement of the purpose and activities of the organisation	This is designed to provide users with a clear statement of the purpose of the organisation and its key activities
Key issues that affect the entity in delivering its objectives	Entities have generally been poor at identifying and reporting on risks and other issues that could affect the delivery of objectives. This section requires entities to address this key user need.
Performance summary	The performance summary will effectively be an executive summary of the performance analysis section which will follow the Overview. HM Treasury expects this to be a lively and visual presentation with a focus on trend information.

Table 1: Structure and purpose of Overview

11. The “Performance analysis” section will be a more detailed performance summary providing a clear indication of how the entity measures its performance, allowing for the presentation of a more detailed integrated performance analysis.

Section	Purpose
How the entity measures performance	The overall purpose of the performance section is to provide entities with the freedom to report on what they see as their important performance measures in a manner that best reflects how performance is managed while meeting users needs. This section will provide the user with an understanding of what the entity sees as its key performance measures and how it checks performance against those measures.
Performance analysis	The performance analysis should provide detail and analysis of performance against the key performance measures that are important to the entity. It is expected that entities will provide a lively and visual presentation, drawing together information from other parts of the annual report and accounts and also providing longer term trend analysis where appropriate.

Table 2: Structure and purpose of Performance analysis

12. There are currently a large number of standalone requirements mandated by HM Treasury through the means of an annual Public Expenditure System paper that require entities to report on sustainability, rural proofing and adaptation to climate change, the Common Core Tables, Business Plan Indicators, Quarterly Data Summary information, and Reporting on Better Regulation. The Project has provided clear evidence that including these measures on a standalone basis in the ARA is not meeting user needs. In the future if they are necessary to understanding how the entity measures its own performance then HM Treasury would expect these to form part of an integrated performance analysis.

Requirement	Current reporting	Future position
Common Core Tables	The Common Core Tables aim to provide Parliament and other users with core data in a common format across central government. They were rationalised and simplified in 2010-11 as a result of the Clear Line of Sight reforms and currently are comprised of 8 tables providing public spending information based on estimates subheads, regional analysis, and additional staff and admin disclosures	Country and regional analysis data provided in the Tables 6 to 8 is available in the HM Treasury Public Expenditure Statistical Analyses (PESA). For the other Tables, users have noted that there is some confusion caused by an inability to reconcile this information to the financial and performance information provided elsewhere in the Annual Report and Accounts. Based on the feedback from users HM Treasury is proposing the removal of all but two of the Common Core Tables. These are Table 1 - Public Spending which provides a summary of departmental net expenditure using the same headings as voted within the Estimate and as such gives transparency of spend against the

Requirement	Current reporting	Future position
		<p>Estimate, and Table 4 Administration Budgets which ensures that there is continued visibility around administration spend even under a proposed financial statement format which removes this compulsory split.</p>
<p>Business Plan indicators and Quarterly Data Summary</p>	<p>Main departments are required to publish a Business Plan as part of the transparency framework. These set out the department's priorities, structural reform plans, expenditure and its contribution to transparency. The Business Plan also sets out the department's input and impact indicators and it is against the Business Plan priorities, structural reform plans and indicators that currently department's must publish their performance against. Outturn data for current and prior year against each of the indicators in the business plan must be included, however, along with overall headline spend data from the Quarterly Data Summary. The performance report is also required to include narrative to support understanding of the data provided.</p>	<p>Under the proposed framework, reporting on performance against the Business Plan, the Business Plan input and impact indicators and spend data from the Quarterly Data Summary will be included in the performance analysis to the extent that the department measures its performance against these areas.</p> <p>The overall performance regime for departments is dictated by the coalition agreement so HM Treasury expects the Business Plan priorities and the input and impact indicators to remain a feature of the performance analysis in some format. Continued transparency over these areas in the current reporting format will be achieved through continued reporting on the Number 10: Transparency website and the Government Interrogating Spending Tool website.</p>
<p>Better Regulation</p>	<p>Reporting on Better Regulation requires departments to describe how they have applied the Government's Principles of Regulation (both domestic and EU). This needs to be supported by examples of how the department is delivering on the Government's commitment to producing less regulation, better regulation and regulations as a last resort, as well as any action taken on mitigating the impact of new regulations on small businesses and micros. Departments are also required to currently offer information about their progress relating to both</p>	<p>Under the proposed framework, performance on Better Regulation will be included in the ARA to the extent that this is a key performance measure that the department measures itself against. There will be no compulsory requirement to include this information in the ARA. In the absence of this compulsory requirement to report in the ARA, transparency over these areas will be maintained through Statement of New Regulations (SNRs) reporting. SNRs are produced quarterly by every Department to inform business of regulatory</p>

Requirement	Current reporting	Future position
	domestics and European legislation	changes and track the Government's performance against its deregulatory targets. These are available by Department on the .gov.uk website.
Sustainability reporting and reporting on sustainable development, adapting to climate change and rural proofing	In addition to the HM Treasury mandated sustainability report, there are further reporting requirements on sustainable development, adapting to climate change and rural proofing that departments must comply with. Where not already including in other reporting, departments are also required to note how sustainable development is embedded in overall governance, decision making and assurance processes and how staff learning and participation is supported.	The current reporting framework is onerous and leads to departments focussing on meeting disclosure requirements rather than embedding sustainable development. Under the proposed framework, performance on sustainable development will be included in the ARA to the extent that it is either a key performance measure that the department measures itself against and/or it interacts with other performance measures. There will, however, also be a minimum requirement set for reporting on certain high-level indicators that form the basis of the Greening Government Commitments (GGC). This will reflect compulsory requirements for certain private sector entities to now report on Greenhouse Gas Emissions. The GGC relate to Greenhouse gas emissions, waste, water consumption and procurement.
Complaints to Parliamentary Ombudsman	In response to a recommendation made by the Public Administration Select Committee, departments are currently required to publish information on complaints to the Parliamentary Ombudsman in their ARA.	HM Treasury proposes the retention of mandatory reporting on complaints to the Parliamentary Ombudsman but envisages that this reporting will be better placed in future in the new "Accountability" section of the ARA.
Staff number, pay multiples, off-payroll arrangements and spend on consultancy and temporary staff	There are currently a number of mandatory reporting requirements related to staff number, remuneration, and spend on consultancy, temporary staff and off-payroll arrangements.	HM Treasury shares the view of the Chairs of the Liaison Committee and the Public Accounts Committees that the mandatory reporting of certain information related to remuneration be retained. HM Treasury is of the view that entities will have the freedom to

Requirement	Current reporting	Future position
		report on these areas within the “Performance” section of the ARA as they deem necessary. There will, however, be a retention of mandatory reporting on areas related to staff numbers and pay within a redesigned remuneration and staffing section of the “Accountability” section of the ARA

Table 3: Changes to currently mandated reporting requirements

Accountability

13. The purpose of the “Accountability” section is to meet key accountability requirements to Parliament stemming from the fact that it is the primary user of the ARA. It is also the section that Departments will use to demonstrate compliance with norms and specific codes of good corporate governance. The “Accountability” section will, therefore, provide information that will enable the user to assess whether the entity (i) has the governance structure in place to meet its objectives, (ii) whether it has complied with key rules and requirements related to the remuneration of directors and other staff, and (iii) remained within the voted limits on resource and capital spending set by Parliament, complied with other authorities governing the entity, and met requirements imposed by the relevant accounting standards.

14. HM Treasury is proposing that this section be split into three component parts. The first a Corporate Governance Report, the second a Remuneration and Staff Report, and the third a Parliamentary Accountability and Audit Report.

(i) Corporate governance report

15. The Corporate Governance Report will provide the user with sufficient information to explain the composition and organisation of the entity’s governance structures and how they support the achievement of the entity’s objectives. It will take a number of existing requirements under the current framework and bring them together in one logical place within the ARA.

Requirement	Current reporting	Future position
Directors’ report	The annual report is required to contain a directors’ report, disclosing the matters required to be disclosed in the directors’ report under section 416 of the Companies Act 2006. These are (a) the names of the persons who, at any time during the financial year, were directors of the company, (b) the principal activities of the company in the course of the year and (c) a business review containing a fair review of the entity’s business and a description of the principal rules and uncertainty facing the entity. The FReM adds a number of further	HM Treasury is proposing to retain the requirement to list the names of the persons who, at any time during the financial year, were directors of the company, in accordance with current public sector interpretations of the Companies Act but remove direct reference to the Act and a number of the other current disclosure requirements where these basic accountability needs of users are met elsewhere. Entities will continue to be

Requirement	Current reporting	Future position
	<p>mandatory requirements that require entities to disclose information on areas pension liabilities, register of interests, sickness absence data, personal data incidents etc.</p> <p>Although not a requirement of the FReM, the annual Public Expenditure System (PES) guidance related to the Annual Report and Accounts also notes that topics that will normally need to be covered (but are not requirements for all departments where there is nothing material to report) including – numbers of Senior Civil Service staff by pay band; performance in responding to correspondence from the public; Recruitment practice; Health and Safety reporting; Publicity and advertising; and details of sponsorship agreements over £5,000</p>	<p>required to publish information on personal data related incidents where these have been formerly reported to the information commissioner's office.</p> <p>In one area HM Treasury is also proposing that disclosure is enhanced to support transparency. Details of company directorships and other significant interests held by Board members which may conflict with their management responsibilities will now have to be published even if a Register of Interests open to the public is maintained unless that Register is available online. If the Register is held online then a weblink to it must be provided.</p> <p>With regard to the PES requirements on additional disclosure, Departments will only be required to report on these areas to the extent that there is anything material to the organisation to the report. Departments will, however, be reminded of the commitment under the Revitalising Strategy for health and safety in the workplace to summarise health and safety performance in annual reports.</p>
<p>The Statement of Accounting Officer responsibilities and the Governance Statement</p>	<p>The Statement of Accounting Officers responsibilities provides the user with an explanation of the Accounting Officer's responsibilities for preparing the financial statements. It is prepared to a format set by HM Treasury.</p> <p>The Governance Statement provides an explanation of how the Accounting Officer has managed and control the resources used in their organisation. It has three core components, namely corporate governance, risk management and for come</p>	<p>HM Treasury intends to make no changes to the current requirements to produce a Statement of Accounting Officers responsibilities and a governance statement and would expect these to be produced within the Corporate Governance section of the ARA.</p>

Requirement	Current reporting	Future position
	departments oversight of certain local responsibilities.	
Non-Executive Board Members Report	Every department with an enhanced departmental board is required to include a section in the annual report written by the departmental lead non-executive. The content of this section is at the discretion of the lead non-executive in consultation with other non-executives and board members.	The non-executive board members report is a key component in demonstrating good governance and as such HM Treasury proposes its retention in the new format ARA. As the content is at the discretion of the lead non-executive further guidelines on content will not be provided and where deemed appropriate by the reporting entity, HM Treasury would support the reports inclusion in either the "Accountability" section or in the "Overview" section immediately following the Minister's/Chief Executive's statement.

Table 4: Content of the Corporate Governance Report

(ii) Remuneration and staff report

16. The proposed remuneration and staff report has a number of purposes. It will set out the elements of the entity's remuneration policy for directors, report on how that policy has been implemented and set out the amounts awarded to directors and where relevant the link between performance and remuneration. In addition the report will provide further details on remuneration and staff that Parliament and other users see as key to accountability

Requirement	Current reporting	Future position
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Requirement	Current reporting	Future position
Remuneration report	<p>Section 421 of the Companies Act 2006 requires the preparation of a Remuneration report containing certain information about the directors remuneration. Departments and other reporting entities are required to follow the requirements to the extent that they are relevant, with some of the information disclosed being subject to audit and being referred to in the audit opinion. HM Treasury currently requires the provision of the following information:</p> <p>(i) explanation of recruitment principles of Civil Service remuneration policy;</p> <p>(ii) details of the remuneration (including salary) and pension entitlements of the Ministers and most senior management of the department – this includes details of what comprises salary, benefits-in-kind and pensions and also tables listing in cash terms the (a) salary, benefits in kind, pension benefits and a single total remuneration figure; and (b) accrued pensions and cash equivalent transfer values</p> <p>(iii) information on exit packages for Ministers and Senior staff (all exit packages under Civil Service and other compensation schemes are currently disclosed within the financial statements).</p>	<p>In response to the high level design principles, there was a strong desire from Parliamentary Committees to ensure the continuation of detailed mandatory reporting on remuneration. HM Treasury is committed to ensuring value for money for the taxpayer from remuneration in the public sector, particularly at senior levels, and from the use of consultancy, temporary staff and others that are not on payroll. As such mandatory reporting in these areas will remain, but with some changes made to current reporting requirements to streamline disclosures.</p> <p>Departments will be required to publish narrative information which details remuneration policy for senior civil servants and Ministers along with detailed disclosure on salaries and other forms of remuneration.</p> <p>The current requirement to publish both the single remuneration and CETV figures will be dropped. Changes to the Companies Act have seen CETV disclosures replaced by the single remuneration figure as this is easier to understand for users.</p> <p>Exit packages will continue to be disclosed individually for those individuals who are named in the remuneration report</p>
Additional disclosures	<p>In addition to the Companies Act requirements, HM Treasury also requires entities to disclose:</p> <p>(i) outturn data on staffing which must also include numbers of non-payroll staff (consultants, and contingent</p>	<p>Departments will be required to continue to disclose outturn data on staffing which must also include numbers of non-payroll staff (consultants, and contingent labour i.e. interim managers, specialist contractors</p>

Requirement	Current reporting	Future position
	<p>labour i.e. interim managers, specialist contractors and agency staff) together with reporting spend on consultancy and on the use of contingent labour;</p> <p>(ii) pay multiples disclosures;</p> <p>(iii) off-payroll engagements; and</p> <p>(iv) exit package disclosures.</p>	<p>and agency staff) together with reporting spend on consultancy and on the use of contingent labour.</p> <p>Disclosure of the relationship between the salary of the most highly paid individual in the organisation and the median earnings of the organisations workforce will continue to be required, as will continued to reporting on off-payroll engagements.</p> <p>Exit packages will continue to be disclosed in total via the exit packages note.</p>

Table 5: Content of the Remuneration and Staff Report

(iii) Parliamentary Accountability and Audit Report

17. The Parliamentary Accountability and Audit Report will bring together the key Parliamentary accountability documents in one place within the ARA. This will include the Statement of Parliamentary Supply and those Common Core Tables that are being retained, the Certificate and Report of the Comptroller and Auditor General to the House of Commons and, if deemed necessary, a number of other disclosures based on Managing Public Money requirements.

Requirement	Current reporting	Future position
Statement of Parliamentary Supply and retained Common Core Tables	<p>The Statement of Parliamentary Supply is a key accountability statement to Parliament. It reports:</p> <p>(i) in the summary of outturn, a comparison of outturn against the Supply Estimate voted by Parliament in respect of each budgetary control limit. The Summary will show net resource expenditure, and net capital expenditure for both Departmental Expenditure Limit (DEL) and Departmental Annually Managed Expenditure (AME) budget classifications. It will in addition report the Estimate and outturn for non-voted expenditure (eg Consolidated Fund standing services);</p>	<p>Given the importance of the Statement of Parliamentary Supply to accountability, HM Treasury intends to retain the statement but move it away from the core IFRS financial statements and include it within the "Accountability" section. This will ensure it retains its prominence and is positioned next to the certificate and report of the Comptroller and Auditor General to the House of Commons. By making this statement more prominent in its own section distinct from the core IFRS financial statements it is expected that users will find all of these statements more</p>

Requirement	Current reporting	Future position
	<p>(ii) the net cash requirement (calculated on the same basis as the Voted Supply Estimate), with a comparison of the outturn against the Voted Supply Estimate;</p> <p>(iii) a statement of administration costs incurred, with a comparison of the administration costs limit. Although the administration costs limit is not formally voted by parliament, it is treated as a parliamentary control, and reported on in the same way as voted limits; and</p> <p>(iv) Explanations of variances between the Estimate and outturn are given in the Management Commentary. A brief explanation of any Excess Votes are given with the Statement of Parliamentary Supply.</p>	<p>accessible.</p> <p>The format of the Statement of Parliamentary Supply will be changed to focus on the intention of the Estimate which is to gain approval from Parliament for Supply. HM Treasury is proposing the removal of the non-voted column from the Statement of Parliamentary Supply as this is not subject to approval via the Estimate. Non-voted expenditure will still be shown in the IFRS-based financial statements. HM Treasury is also proposing the removal of prior year figures as these are not subject to current year approval and are presented at a level that does not provide an opportunity for meaningful analysis and a significant reduction in the supporting notes that entities are required to include to support the Statement of Parliamentary Supply. This is a response to the feedback obtained during the project that these notes are not used or understood by users.</p> <p>While HM Treasury will still require these notes to be prepared for audit, the only Statement of Parliamentary Supply supporting notes that we will require to be published alongside the statement is the “analysis of net resource and capital outturn by section” and the “reconciliation of net resource outturn to net operating cost”.</p> <p>Alongside the Statement of Parliamentary Supply and the remaining supporting note HM Treasury will also require departments to publish the two remaining Common Core</p>

Requirement	Current reporting	Future position
		Tables.
The Certificate and Report of the Comptroller and Auditor General to the House of Commons	The Certificate and Report of the Comptroller and Auditor General to the House of Commons is the key accountability document. It certifies that the C&AG has audited the financial statements of the entity, including the Statement of Parliamentary Supply.	HM Treasury has no plans to make any changes to either the scope of audit or the certificate and report of the C&AG. It is expected that the certificate and report will be placed at the end of the Accountability section immediately before the financial statements.

Table 6: Content of the Parliamentary Accountability and Audit Report

Financial statements

18. The final section of the proposed new format ARA will be “Financial Statements”. Financial statements that present the entity’s financial position and performance in accordance with Generally Accepted Accounting Practice are required to be prepared under the Government Resources and Accounts Act 2000. The evidence gathered during the Project has highlighted that a set of financial statements audited by the NAO remains important to users, and that users want to see better integration between the financial information presented and wider entity performance. The Project also provided a significant amount of evidence, however, that the concept of materiality is currently poorly understood and inconsistently applied by both preparer and auditors. This is leading to the disclosure of significant amounts of irrelevant data and information that is reducing the usefulness of the financial statements for accountability and decision-making.

19. HM Treasury is proposing that financial statements are redesigned as part of this project, with a move away from the current departmental format to one which is more based on the reporting structure required by IFRS. This will improve alignment between departmental accounts and WGA, which is already based on IFRS. The move to a format more closely aligned with WGA will improve the consistency between entity and macro level financial reporting. As the format will be on a more common IFRS basis, the financial statements should be more accessible to users. It is also expected that this will reduce burdens on preparers and it will be crucial in enabling the more timely production of WGA in future periods. Financial reporting guidelines will make clear that notes to the accounts will only be required for material balances.

Statement of Comprehensive Net Expenditure

20. The major change in moving to an IFRS format for the financial statements will be the impact on the Statement of Consolidated Net Expenditure. This primary statement for departments currently has a three column format that separately presents expenditure and income for the core Department, Department and Agencies and Departmental Group. The presentation of this income and expenditure is split between administration costs and programme expenditure. A statement prepared under IAS 1 will give a more detailed breakdown of the nature of income and expenditure on the face of the statement. This will provide a more relevant analysis of the nature

of income and expenditure without requiring the user to go immediately to the detail of the supporting notes.

21. There are a number of areas where the move to an IAS 1 format for the Statement of Comprehensive Net Expenditure requires changes elsewhere to ensure that there is no loss of useful financial information. Evidence obtained during the project has highlighted that some users still value the disclosure of spend for administration. While this will disappear from the main statements, transparency over the split between administration and programme expenditure and income will remain through the retention of the administration control total and the retained Common Core Table providing an analysis of administration budgets.

22. A further area where a change is necessary to prevent the loss of financial information under IAS 1 relates to expenditure and income for the core department. HM Treasury proposes a move to a two column approach of department and agencies and departmental group. This better reflects the financial management relationship between the entities.

23. HM Treasury's proposed format for the Statement of Comprehensive Net Expenditure from the 2015-16 financial year is shown in the Annex, along with the suggested format of the other statements.

Statement of Financial Position

24. IAS 1 requires entities to prepare a Statement of Financial Position and provides guidance on the minimum presentation required on the face of the Statement of Financial Position. The FReM makes a minor interpretation at present to provide guidance on the order of presentation of certain items and to require a three column (department, department and agencies and departmental group) approach. WGA has an IAS 1 compliant Statement of Financial Position which has only one column but which follows the same presentational guidance given in the FReM.

25. HM Treasury is proposing that the minimal interpretation is retained in the FReM, but with a change to require a two rather than three column approach consistent with the Statement of Comprehensive Net Expenditure. This will provide high level consistency and comparability across Departments and WGA while giving entities flexibility to provide additional disclosures as deemed necessary.

Statement of Changes in Taxpayers' Equity

26. IAS 1 requires entities to prepare a Statement of Changes in Equity. IAS 1 is currently interpreted for the public sector context in the FReM such that all reporting entities are required to present a Statement of Changes in Taxpayers' Equity following the format in IAS 1. Entities funded from Supply or grant-in-aid need to adapt the format to disclose transactions with the General Fund. The FReM does not mandate a required format, but notes that Department Yellow provides an illustrative example. The illustrative example provided in Department Yellow contains a significant amount of extraneous detail that does not assist the user.

27. The WGA format of the Statement of Changes in Taxpayers' Equity is closer to a standard IAS 1 format, but does not take into consideration the nature of the Supply process by which government departments are financed. HM Treasury is therefore proposing a change from the existing illustrative statement which has unnecessary complexity while retaining those elements that are essential to reflect the supply funded nature of entities.

28. The new statement will retain the current columns, which suggest entities should split reserves between a general fund and a revaluation reserve to show taxpayers equity and

separately disclose charitable funds in order to provide a total reserve. The line disclosures will comprise four required headings:

- Parliamentary funding
- Comprehensive net expenditure for the year
- Revaluation gains and losses
- Transfers between reserves

29. These more closely match the IAS 1 and WGA line headings, and entities will be given the freedom to add additional headings as necessary for their individual circumstances.

Statement of Cash Flows

30. IAS 7 sets out the requirements for the format of the Statement of Cash Flows. The FReM makes no interpretation to IAS 7 but specifies a number of requirements. These are:

- entities financed by Supply issued from the Consolidated Fund should include amounts drawn down from the Consolidated Fund and paid to the Consolidated Fund on a gross basis in the financing section;
- in reconciling the operating cost to operating cash flows, entities should exclude movements in debtors and creditors relating to items that do not pass through the Statement of Comprehensive Net Expenditure (balances with the Consolidated Fund; and debtors and creditors linked to loans from the National Loans Fund, capital expenditure, finance leases and PFI contracts);
- in analysing capital expenditure and financial investment, entities should adjust for debtors and creditors relating to capital expenditure and those relating to loans issued to or repaid by other bodies; and
- in analysing financing, entities should adjust for debtors and creditors relating to the capital expenditure in respect of finance leases and on-balance sheet PFI contracts.

31. HM Treasury intends to retain the requirements noted currently in the FReM but to amend the illustrative statement to ensure that the financing activities section more closely matches IAS 7. At present Department Yellow suggests entries against a large number of individual lines related to financing from the Consolidated Fund, the National Insurance Fund, the Contingencies Fund and the National Loans Fund. A number of these lines will be amalgamated to show only net flows. Additional lines not currently shown related to finance costs and revenues will also be included.

Notes to the financial statements

32. The notes to the financial statements provide additional detail to users on the accounting policies of the entity and the numbers included in the core financial statements. Notes should only be included where additional information is material, i.e. where its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. In the public sector context materiality can be by nature and context as well as in value, and the decisions of users can be of a non economic nature.

33. HM Treasury does not require entities to produce notes where the information is immaterial to the user and the Financial Reporting Manual clearly notes that disclosures should be limited to those necessary for an understanding of the entity's circumstances. Nevertheless there has been

a tendency for departments to rigidly follow disclosure templates even where the information provided is not material and for auditors to also insist on this approach.

34. HM Treasury has been working with departments and the National Audit Office to encourage a “red-pen approach” to the financial statements where immaterial disclosures are removed. As part of the new ARA, further emphasis will be placed on materiality and the requirement only to include information additional to the financial statements where it is material; be that by value, nature or context.

Other reporting entities

35. The main focus of HM Treasury during the Project to date has been on the reporting requirements of government department groups financed by Parliamentary Supply. There are a number of other entities in central government, however, that HM Treasury sets reporting requirements for, including public sector pension schemes, agencies and trading funds. HM Treasury also sets reporting requirements for Trust Statements, which detail the collection and allocation of revenue collected by entities on behalf of the Consolidated Fund.

36. The overall reporting vision of Simplifying and Streamlining is applicable to all statutory reporting in central government and HM Treasury will be examining the illustrative financial statements related to entities other than departments and making amendments as necessary.

Summary and recommendation

37. That the Board note the further work undertaken to date on the Simplifying and Streamlining Statutory Annual Report and Accounts project and comment on the on the detailed design proposals for future reporting requirements

HM Treasury
19 June 2014

Annex: Financial Statements under new design

(i) Statement of Parliamentary Supply

	Estimate (voted)	Outturn (voted)	201X-1Y £000 Voted outturn compared with Estimate: saving/ (excess)
Departmental Expenditure Limit			
- Resource			
- Capital			
Annually Managed Expenditure			
- Resource			
- Capital			
Total Budget			
Non-Budget			
- Resource			
Total Outturn			
Total Resource			
Total Capital			
Net cash requirement			
Administration costs			

(ii) **Statement of Comprehensive Net Expenditure**

	201X-1Y		201Y-1W	
	Core Dept. & Agencies	Group	Core Dept. & Agencies	Group
	£000	£000	£000	£000
Income from sale of goods and services				
Other operating income				
Total operating income				
Staff costs				
Purchase of goods and services				
Depreciation and impairment charges				
Provision expense				
Other operating expenditure				
Total operating expenditure				
Net operating expenditure				
Finance income				
Finance expense				
Borrowing costs on provisions				
Net expenditure for the year				
Other comprehensive net expenditure				
Items which will not be reclassified to net operating costs:				
- Net gain/loss on revaluation of property, plant and equipment				
- Net gain/loss on revaluation of intangible assets				
- Actuarial gain/loss on pension scheme liabilities				
Items which may be reclassified to net operating costs:				
- Net gain/loss on revaluation of investments				
Comprehensive net expenditure for the year				

(iii) Statement of Financial Position

	201X-1Y		201Y-1W	
	Core Dept. and Agencies	Group	Core Dept. and Agencies	Group
	£000	£000	£000	£000
Non-current assets				
Current assets				
Total assets				
Current liabilities				
Total assets less current liabilities				
Non-current liabilities				
Total assets less total liabilities				
Taxpayers' equity				

(iv) Statement of Changes in Taxpayers' Equity

	General Fund	Revaluation Reserve	Taxpayers' equity
	£000	£000	£000
Balance at 31 March 201X			
Net Parliamentary Funding			
Comprehensive net expenditure for the year			
Revaluation gains and losses			
Transfers between reserves			
Balance at 31 March 201Y			

(v) **Statement of Cash Flows**

	201X-1Y		201W-1X	
	Core Dept. & Agencies	Group	Core Dept. & Agencies	Group
	£000	£000	£000	£000
Cash flows from operating activities				
Net operating cost				
Adjustments for non-cash transactions				
(Increase)/Decrease in trade and other receivables				
(Increase)/Decrease in inventories				
Increase/(Decrease) in trade and other payables				
Use of provisions				
<i>Net cash outflow from operating activities</i>				
Cash flows from investing activities				
Purchase of property, plant and equipment				
Purchase of intangible assets				
Proceeds of disposal of property, plant and equipment				
Proceeds of disposal of intangibles				
<i>Net cash outflow from investing activities</i>				
Cash flows from financing activities				
Net financing from the Consolidated Fund				
Net financing from the National Insurance Fund, Contingencies Fund, National Loans Fund				
Capital element of payments in respect of finance leases and on-balance sheet (SoFP) PFI contracts				
<i>Net financing</i>				
Net increase/(decrease) in cash and cash equivalents in the period				
Cash and cash equivalents at the beginning of the period				
Cash and cash equivalents at the end of the period				