



Financial Reporting Advisory Board Paper

Government Financial Reporting Manual (FReM) and illustrative statements for 2016-17 and in-year amendments for 2015-16

Issue:	HM Treasury requests that the FRAB agrees to the publication of the 2016-17 FReM and illustrative statements, and an update to the 2015-16 FReM and illustrative statements following minor corrections and to align with the Streamlining and Simplification Project.
Impact on guidance:	The FReM and illustrative statements have been updated for application from 2015-16. The updates to the 2015-16 FReM are proposed to improve alignment with the simplifying and streamlining proposals. No changes have been made to the 2016-17 FReM compared with the revised 2015-16 FReM.
IAS/IFRS adaptation?	No.
Impact on WGA?	Yes
IPSAS compliant?	To the extent that 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.
Recommendation:	That FRAB notes the proposed amendments to the FReM and illustrative statements for 2015-16 and 2016-17, and agrees their publication.
Timing:	The updated Manuals will be published in December 2015.

DETAIL

Background

1. The Memorandum of Understanding between the Relevant Authorities for developing financial reporting guidance for the public sector requires that the version of the FReM for financial year 2016-17 is available to users by 1 January 2016. This paper requests that the Board notes the proposed amendments to the FReM and illustrative statements for 2016-17 and to agree to their publication.

2. In addition, in-year changes are proposed for the 2015-16 FReM and illustrative statements for minor corrections and to reduce inconsistencies arising from the first year of implementation of the simplifying and streamlining proposals. This paper requests that the Board notes the proposed amendments to the FReM and illustrative statements for 2015-16 and agrees to their publication.

Amendments to the 2015-16 FReM

3. Minor changes and corrections are proposed to the 2015-16 FReM to correct minor errors, reduce inconsistencies and possible ambiguity. The proposed amendments to the FReM are summarised at Annex A.

4. The final version of the 2015-16 FReM is included at Annex C.

Amendments to the 2015-16 illustrative statements

5. Amendments have been made to the 2015-16 illustrative statements to correct minor errors and reduce inconsistencies and possible ambiguity in changes made to the Manual for the first year of implementation of the simplification and streamlining proposals. The final version of the illustrative accounts is included at Annex C.

6. The main changes are:

- Relocating losses and special payments and fees and charges disclosures from the Financial Statements to Accountability section to align with the FReM.
- Inclusion of prior year comparatives for Statement of Taxpayer's Equity.
- Clarification on the disclosures requirements for expenditure following removal of requirement for administration and programme expenditure split in the FReM.
- Removal of the intra-government payables and receivables tables following removal of requirements in the FReM.
- Removal of table "*Charges to the Statement of Comprehensive Net Expenditure and Future Commitments*" and incorporation into the tables for on and off SOFP PFI. Additional guidance has also been included.

Amendments to the 2016-17 FReM and Illustrative Statements

7. No changes have been made to the 2016-17 FReM or illustrative statements from the 2015-16 versions presented with this paper.

8. The WGA section of 2016-17 FReM currently states highways infrastructure assets held by local authorities are recognised at historical cost (10.2.5). We are aware the FReM will need to be updated once CIPFA/LASAAC finalise proposals for local authorities to move towards depreciated replacement cost in 2016-17. Likewise, Annex 3 (differences between budgets and accounts) will be updated when the arrangements for changes to the budgetary treatment of research and development costs are finalised.

9. There has been no EU adopted standards or amendments to standards applicable for 2016-17 which need to be included in the FReM at present. The EU has decided not to launch the endorsement process of IFRS 14 *Regulatory Deferral Accounts*. There are a number of amendments to standards which are expected to receive endorsement in the fourth quarter of 2015.

10. The revised FReM for 2016-17 and illustrative statements are at Annex D.

Recommendation

11. The Board is requested to consider the proposed amendments to both the 2015-16 FReM and 2016-17 FReM and illustrative statements and to agree their publication.

HM Treasury
19 November 2015

In-year amendments to the 2015-16 Government Financial Reporting Manual (FReM) – published December 2015

1. Minor changes and corrections have been made to the 2015-16 FReM. The affected paragraphs are:

Paragraph	Change	Reason for change
Throughout	Welsh Assembly Government has been renamed to Welsh Government	To reflect change in name as per the Wales Act 2014
Throughout	Net operating costs renamed to net operating expenditure	Improve consistency throughout Manual
2.3.1	Removal of requirement to produce a note for outturn versus estimate for administration costs.	Under simplifying and streamlining agenda, this note has been removed.
3.2.12 (f)	Include fees and charges under parliamentary accountability section and update disclosure requirements	To align with the requirements of Managing Public Money
5.3.1	Update reference to Statutory Instrument for remuneration reporting	Update reference to latest SI
5.3.4	Removal of staff costs to be included in Accountability Section but retain in Financial Statements.	To clarify inconsistency between FReM and Department Yellow under simplifying and streamlining agenda.
5.4.20	Highlight need to consider disclosure requirements per the standards unless interpretations or adaptations were detailed in the manual.	Emphasis added following feedback from Departments. Some paragraphs (current assets/liabilities etc.) had been removed from previous FReM on the grounds that it duplicated the standards.

5.4.22	Operating income section removed	In line with removal of other paragraphs where it duplicated standards or did not add any additional information.
5.4.28	Emphasis added for the requirement to follow IAS 17 and SIC 29 disclosure requirements for PFI. Requirement to deduct interest from total commitments removed.	To improve disclosure reporting of PFIs for alignment to IAS 17 and parliamentary accountability. DY has also been amended.
IAS 20 Interpretation (b)	Added -Trading Funds, where they have the consent of the Relevant Authority, need not apply this interpretation.	Applying this interpretation to Trading Funds can be problematic when applied to capital grants in kind as it can distort financial performance, including reported ROCE.
IAS 39 Adaptation	Reference to rate replaced with discount rates as promulgated in PES papers	Improves consistency with references to other centrally set discount rates.
7.1.2	Added - for non-property assets only, appropriate indices may be used to value assets.	Re-inclusion of indices as an appropriate method for valuation. (2014-15 FReM reference – 7.1.9)
10.2.2(d)	Clarifies that the presentation of reporting segments is after consolidation adjustments.	More consistent with how segmental performance is reported to chief operating decision maker.

Annex B

2015-16 FReM with Illustrative Statements

See separate document with track changes

Annex C

2015-16 FReM with Illustrative Statements

See separate document

Annex D

2016-17 FReM with Illustrative Statements

See separate document