HM TREASURY

FRAB (128) 03
24 NOVEMBER 2016

Financial Reporting Advisory Board Paper

IFRS 15 *Revenue from Contracts with Customers* – Exposure Draft Consultation Reponses and Analysis

Issue:	The IFRS 15 Exposure Draft was consulted on over Summer 2016. This paper provides a summary of the responses received from the consultation, issues raised and proposed next steps.
Impact on guidance:	None at this stage. The FReM will need to be updated for a 2018-19 implementation date.
IAS/IFRS adaptation?	No adaptations are proposed. Treatment for taxes and duties, fines and penalties are outside of the scope of IFRS 15.
Impact on WGA?	None at this stage but the adoption of the Standard will affect how IFRS 15 is applied for the 2018-19 WGA.
IPSAS compliant?	Prior to IFRS 15, IPSAS and IFRS were broadly consistent. IPSASB are considering the impacts of IFRS 15 through its revenue project.
Interpretation for the public sector context?	Interpretations are proposed for the public sector context on the definition of a contract and the application of performance obligations. These are highlighted in this paper.
Impact on budgetary regime and Estimates?	IFRS 15 does not impact the budgetary regime/Estimates beyond changing the timing of recognition points of certain revenue streams.
Alignment with National Accounts	Initial discussions with the ONS indicate IFRS 15 is broadly aligned with the National Accounts treatment.
Recommendation:	The Board considers and provides views on the responses to the Exposure Draft consultation and agrees the next steps.
Timing:	No changes to be made until the 2018-19 FReM.

DETAIL

Background

1. The International Accounting Standards Board (IASB) has issued 'IFRS 15 Revenue from Contracts with Customers' which replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related Interpretations.

2. IFRS 15 has been approved by the European Commission and published in the Official Journal in October 2016. The *Clarifications to IFRS 15* issued in April 2016 are expected to be approved in 2017. IFRS 15 (including the clarifications) is expected to be implemented in the UK public sector from 1 April 2018 (2018-19 financial year).

3. At the last meeting (FRAB 127), HM Treasury provided the Board with the Exposure Draft (ED) for consideration, in advance of the consultation exercise which took place over the summer. This paper provides the Board with the responses to the ED, addresses issues raised by the respondents and proposed next steps.

Exposure Draft Responses

4. HM Treasury published ED 16 (02) on IFRS 15 Revenue from Contracts with Customers on 9 August 2016 and received 22[1] responses to the ED from:

- Central government departments – 12
- Arms-length bodies – 6
- Whole of Government Accounts team
- Relevant Authority/professional institutions - 3

5. 11 of the respondents agreed with the proposed approach across all the questions raised in the ED and raised no issues for consideration. The full responses can be found in Annex A. A summary of the key points and issues raised by the consultation are detailed below.

Key issues and areas for consideration

Classification of revenue

6. Some respondents commented that the distinction between revenue and taxes could be difficult to obtain. HM Treasury does not believe the distinction would be any more challenging than the position under IAS 18 *Revenue* as the FReM has not changed in this regard. Though

[1] Whole of Government Accounts; HM Treasury; Department for Business, Energy and Industrial Strategy, Nuclear Decommissioning Authority, Department of Health (also responding on behalf of NHS bodies), Department for Transport, Drivers and Vehicles Standards Agency, Northern Ireland Executive, Department for Environment, Food and Rural Affairs, Environment Agency, Home Office, Department for Communities and Local Government, Homes and Communities Agency, Department for Culture Media and Sports, Defence Science and Technology Laboratory, Ministry of Defence, Ministry of Justice, HM Revenue and Customs, Companies House/Intellectual Property Office, Office for National Statistics, The Institute of Chartered Accountants in England and Wales and Grant Thornton.

entities may find that the classification of some of revenue may change as a result of renewed consideration in this area.

7. HM Treasury would also like to point to existing guidance[2] available on gov.uk on the ONS criteria for when income received is deemed to be a tax. For ease of reference, HM Treasury proposes the link to this guidance be referenced in the FReM and referred to in the application guidance.

Legislation as a contract

8. Grant Thornton raised the point that assets or liabilities created as a result of statutory requirements imposed by government are not contractual and therefore not considered financial instruments (IAS 32 *Financial Instruments: Presentation*, AG.12). Whilst HM Treasury recognises these assets and liabilities are not considered financial instruments, they can be considered as other forms of assets and liabilities; for example as described in IFRIC 21 *Levies* where the underlying liability is recorded in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets.*

Enforceability between government departments

9. The Foreign and Commonwealth Office highlighted the lack of enforceability for contracts between Crown bodies and whether this posed an issue where IFRS 15 states contracts need to be legally enforceable (para 10). This is not a situation that is unique to revenue but across all intra-government transactions where there cannot be a legal contract between Crown bodies, as they are in essence the same organisation.

10. HM Treasury does not see the lack of technical legal enforceability between government organisations as an issue, as it is expected that Crown bodies treat agreements between themselves as if it were akin to an enforceable contract. HM Treasury are happy to make this distinction clear in the application guidance.

Assets under IFRS 15

11. The technical working groups did not identify any assets they would need to capitalise under IFRS 15. Therefore it was proposed that there was no need to consider adaptations or interpretations for the public sector. Through the consultation two organisations identified they may have assets that would need to be capitalised under IFRS 15. These were:

Northern Ireland Department for Infrastructure - Developer Assets

12. The Department for Infrastructure (DfI) commented they are given roads from developers for no consideration and it is their responsibility to maintain the assets going forwards. Following discussions with Northern Ireland colleagues it was identified that these assets could be considered as a non-cash consideration under IFRS 15 (para 66-69) and capitalised using the

[2] https://www.gov.uk/government/publications/introduction-to-classification

criteria under IAS 16. This section of IFRS 15 replaces the previous IFRIC 18 *Transfer of Assets from Customers*. As a result these are not specifically assets that would be capitalised under IFRS 15.

13. Through an informal review, HM Treasury has only identified one other central government organisation that applies IFRIC 18; the Defence, Science and Technology Laboratory. DSTL is due to close in 2017-18 and will therefore not be impacted by the introduction of IFRS 15 in 2019-20. Any residual impacts will be considered by the Ministry of Defence.

14. The NI Department for Infrastructure are working through the impacts under IFRS 15 but currently do not envisage any requirements for public sector interpretations or adaptations.

Drivers Vehicles Standards Agency – Legislation

15. DVSA are an organisation that both creates/updates legislation as well as charges customers fees/levies under that legislation. They raised the question of whether the incremental costs of developing legislation, where we have stated they are akin to a contract, should be capitalised under IFRS 15 (para 91-94).

16. DVSA have identified a number of issues if legislation were to be capitalised. These include ascertaining the life of the legislation to reasonably amortise the asset over, and difficulty in representing the costs incurred by other organisations (usually the parent department) in producing the legislation. DVSA themselves do not capitalise the costs of the legislation under IAS 38 *Intangible Assets* as there is insufficient evidence to support the criteria.

17. There was no intention to capitalise the incremental cost of creating legislation when it was considered to be interpreted as a contract in the public sector context. To prevent any further issues, HM Treasury proposes to add this clarification in the FReM and the proposed application guidance.

18. No further examples of assets that could be capitalised under IFRS 15 have been identified. As a result HM Treasury does not propose any adaptations or interpretations to this section of the Standard.

Fees and Charges

19. The Environment Agency raised concerns that they would not be able to meet the cost recovery basis detailed in Managing Public Money (MPM) as a result of implementing IFRS 15. They requested guidance in the FREM to state that the performance obligation relating to fees and charges is the managing public money cost recovery principle.

20. Similar concerns have not been raised by other organisations that use the MPM basis for setting fees and charges. As a result, HM Treasury is very reluctant to mandate an adaptation in the FReM to suit potentially only one organisation. HM Treasury will work through the detail with the Environment Agency to identify if there are any alternative solutions.

Intra-group transactions

21. The Department for Health requested whether the treatment for revenue to be mirrored for the treatment for expenses for intra-group transactions. Unless the Board deems otherwise, there is no intention to allow the treatment for revenue to be mirrored for expenses as this would cause

divergence in the recognition of expenditure between group and non-group expenditure in the individual accounts.

22. This concept also applies to the Whole of Government Accounts who also raised concerns about the impact IFRS 15 would have on eliminations. WGA will need to consider whether their current policy for addressing the differences in the individual accounts remains suitable following the move to IFRS 15.

Disclosures

23. A number of respondents requested guidance for application of disclosures and emphasising the concepts of materiality.

24. The concept of materiality is clearly defined in the Conceptual Framework and has been actively encouraged by HM Treasury as a part of the Simplifying and Streamlining agenda recently applied for the 2015-16 accounts. HM Treasury have an expectation that equal emphasis on the application of materiality and for disclosures to be included for the benefit of the users of the accounts be applied to the disclosure requirement of IFRS 15.

25. The nature of revenue and contracting practices are likely to vary widely across government and it seems sensible to allow department's flexibility to identify a level of disclosure appropriate to individual circumstances. HM Treasury will work with central government organisations to develop application guidance to ease the implementation of the Standard.

Transition

26. Almost all respondents agreed with the option of mandating a transition approach across the public sector. Option 2 in the ED, retrospective application but no restatement, is the preferred approach.

27. This approach was considered to be the most straight-forward and would improve consistency within the WGA and departmental consolidation boundaries. Only the Department for Culture, Media and Sport (DCMS) requested the flexibility to apply either approach on the basis of allowing organisations to select the best approach to suit their circumstances.

28. HM Treasury still propose to mandate option 2 as the transition approach to be employed across the public sector.

Effective date for implementation in the public sector

29. Almost all the respondents agreed with the implementation date of 1 April 2018, in line with the implementation date for the private sector. The Environment Agency requested the implementation date be extended to allow for more preparation time.

30. HM Treasury do not propose amending the effective date. The public sector should be able to adequately face implementation challenges in advance of the effective dates.

Estimates

31. Some respondents were concerned about the prior period effects on Estimates and whether restatements were required, despite the proposed transition approach for accounts. To clarify the expectations for Supply Estimates, voted prior period adjustments (PPA) are only required where:

a) A department changes its accounting policies on its own initiative; or
b) An error or omission has occurred.

32. Where there is a change in accounting standards there is no net impact on budgets and the Supply sought at the time was correct. Parliament is therefore content not to see a PPA on the voted part of the Estimate.

33. However, Parliament does require departments to identify the change due to adopting a new accounting standard and the impact on prior years in the 'Note F to an Estimate - Accounting Policy changes'. As this change in accounting standard will be made across the public sector, HM Treasury will coordinate with departments a common statement and narrative to include in the Estimates explaining the change.

Next Steps

34. A revised FReM Extract can be found in Annex B. The changes proposed are as a result of the responses to the ED. HM Treasury, in collaboration with the technical working group, will develop application guidance to support the implementation of the Standard in the public sector. Further revisions to the FReM may be required following the development of the application guidance.

Recommendation

35. The Board provides comments on the responses to the exposure draft consultation, analysis undertaken and agrees the next steps to prepare application guidance for implementation.

HM Treasury

24 November 2016

Annex A: Responses from IFRS 15 Exposure Draft Consultation

<u>Questions posed</u>

Question 1: Do you agree with the proposed amendments to the accounting for revenue in the FReM to reflect the principles of IFRS 15? If so, why? If not, why not and what alternatives do you propose?

Question 2: Does your entity expect to recognise assets under IFRS 15 that will not be within the scope of another Standard? If so, what are these assets?

Question 3: Do you agree with the transition approach for the proposed amendments? If so, why? If not, why not and what alternatives do you propose?

Question 4: Do you agree with the proposed effective date for the public sector implementation of IFRS 15? If so, why? If not, why not and what alternatives do you propose?

Question 5: Do you agree with the decision to not adapt the disclosure requirements for the proposed amendments? If so, why? If not, why not and what alternatives do you propose?

Question 6: Do you agree there should be no changes to the principles of accounting for taxes and duties and fines and penalties? If so, why? If not, why not, and what alternative do you propose?

Department	Q.	Comments
Whole of Government Accounts	1	WGA is agrees with the amendments, but we are concerned with the impact on intra-government transactions. An issue may arise when two government entities determine the transaction price in their accounts. For example, a variable consideration could potentially result in the recipient entity reporting the income at a price different to the paying entity. There is also the issue of deciding what point in time to recognise the revenue in the recipient entity's accounts compared to the paying entity's accounts. The extent of this issue will be hard to gauge, as this is an issue that already exists with IAS 18. Having said that, WGA would expect WGA entities to agree material balances before submitting their WGA data returns. In 2014-15 WGA there was £41bn income from sales of other goods and services, £8bn was eliminated as a result of intra government balances. WGA would want to engage with the 9 entities that made up a significant proportion (£3.6bn) of the intra-government balances to get a better understanding of how the implementation of IFRS will affect their financial returns. In addition, WGA will engage early with major departments to identify the potential disclosure issues.
	2	We cannot identify such assets at a WGA level, this would only be picked up at individual entity level.
	3	WGA agrees with the adoption of option 2 for the transition approach. Our main concern is consistency across government bodies. If government departments are left with the option to restate the prior year, or to make an adjustment to opening balances this will cause a problem. WGA would prefer HMT to go down a mandated route, and we agree with the preferred option of adjustments to opening balances. In additional to considerations for central government transitions, WGA will be advising local government (who are undertaking a similar consultation process) to choose the same option for transition.
	4	WGA agree with the proposed effective date for the proposed amendments. It is important to ensure a sufficient lead time for organisations to capture financial data in a style that will meet WGA requirements. WGA brings together central government, local government, and public corporations. This means bringing together accounts that have been prepared according to the FReM (central government), the NHS manual, and accounts that have been prepared according to the Code of practice (local government). It is intention of WGA to have a proposed template for data capture included in the 2016-17 DCT. This will give sufficient time to get feedback and apply changes to the template. WGA will engage with relevant central and local government working groups in order to ensure appropriate consideration of WGA priorities.
	5	WGA agree with the decision on a departmental level. From a WGA perspective, we would want to exercise the flexibility given with other standards to have specific adaptions and interpretations of the disclosure requirements. Whilst we appreciate the need to align as close to IFRS as possible, the uniqueness of Whole of Government Accounts calls for a simplification of the disclosure requirements. WGA would benefit from specific guidance in this area. The disclosure requirements of some accounting standards has resulted in WGA departures from the FReM. There are circumstances where the detailed level of disclosure required by financial reporting standards is not appropriate for WGA. This is because it would create an unwieldy document including details from over 6,000 entities that would not serve the purpose of WGA. For example, information on managing capital, valuation of assets, related parties or secured payables. We have an obligation to disclose financial information in a

Department	Q.	Comments
		format that is insightful and informative to the user of the accounts. Similarly, revenue recognised under IFRS15 will make it difficult when collating data from a large number of entities. In particular the qualitative disclosures: for example determining the categories used to disaggregate revenue; describing how the timing of satisfaction of performance obligations relates to the typical timing of payment; and information on performance obligations. The standard instructs entities to consider the level of detail necessary to satisfy the disclosure objective. In anticipation to the implementation of IFRS15, WGA will need to set out a materiality level, and as mentioned above, a standardised template for data collection that will define the qualitative information requirements. WGA does not want to increase the disclosure burden already placed on government entities, and will ensure it is in alignment with the WGA simplification and streamlining agenda.
	6	WGA agree with this.
HM Treasury	1	Yes, HM Treasury agrees with the proposed amendments. The principles for revenue recognition in IAS 18 tend to be quite broad and as a result, many entities apply a great deal of judgement when applying the standard. IFRS 15 specifies how and when an entity will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures.
	2	HM Treasury does not expect to recognise assets under IFRS 15 that will not be within the scope of another Standard.
	3	Yes, the Department agrees with the transition approach for the proposed amendments. The Department notes that either approach is likely to result in a similar amount of work. The Department considers that it is important that there is consistency in the adoption of IFRS 15 because this will make it easier for users of Annual Report & Accounts to understand the impact of the transition and it will be easier for the Department to communicate the impacts to its stakeholders.
	4	The Department agrees with the proposed effective date of 1 April 2018 because this date has been widely promulgated and there is an expectation that this is when it will occur.
	5	The Department agrees with the decision not to adapt the disclosure requirements. It is important to emphasise materiality when preparing these disclosures.
	6	HM Treasury agrees that there should be no changes to the principles of accounting for taxes and duties and fines and penalties. These revenues are accounted for in a Trust Statement as HM Treasury is acting as an agent rather than as a principal.
Northern Ireland Executive	1	Yes, we agree with the proposed amendments to FReM to reflect IFRS 15 which seem to be minimal. However, it would be useful if FReM had specific section for developer contributions as it quite common in the public sector where there is a statutory obligation to adopt assets which don't fall under the donated assets category
	2	Yes, assets received from developers at no consideration. For example: - A road built by a developer and then adopted by Department for Infrastructure (DfI) at no consideration for DfI to maintain going forward.

Department	Q.	Comments
	3	Yes, agree with transition (retrospective application but no statement) approach to ensure consistency and there would be less work involved if no restatement is required. However, further consideration would be needed on the budget impact of this approach. We also assume there would be no prior adjustments to go through the SSEs if this approach was taken.
	4	Yes agree. This should provide us with sufficient time to put processes in place to allow prior period comparatives to be calculated and relevant information collected for disclosure requirements
	5	Yes, providing additional disclosures for each and every contract with a customer regardless of size would not be an effective use of time. If materiality is used correctly, then only those that are relevant would need to be disclosed. HMT needs to issue additional application guidance as stated in the ED so that the concept of materiality can be applied.
	6	Yes. Since the requirements under IFRS 15 are similar in this regard, there is no reason for the principles of accounting for fines and penalties paid to the consolidated fund to change.
Defence Science and Technology Laboratory	2	Initial thought was that “control” is passed over time i.e. the customer is benefitting from the asset over time. However, it can also be argued that the terms of transfer of ownership of the asset to Dstl does not allow the customer to prevent others benefitting from the use of the asset, and therefore there is a strong case for revenue recognition at a point in time i.e. when the asset is complete and available for use. I suspect that it will depend on the terms of the agreement which will have to be assessed on a case by case basis, and where there are few or no terms concerning use and control of the asset, then applying the “control” concept leads to revenue recognition at a point in time. With respect to IFRS15’s wider application to Dstl, I am content with the ED proposals. I do not anticipate too much distress since Dstl’s revenue is derived from well-defined contracts that are either cost-plus where control is passed over time, or are firm price with defined milestones (performance obligations) that have attached sales prices. In my opinion, Dstl is already IFRS15 compliant and therefore the transitional arrangements will not affect Dstl in a material way (discussions to be continued with our auditors). Any non-compliance is likely to be few and far between – to be reviewed on a case-by-case basis. I am concerned about the additional disclosure requirements – we will discuss with our auditors our proposals on how we will meet the standard’s disclosure objectives.
Department for Business, Energy and Industrial Strategy	1	No, as per response to question 6, amendment 8.2.XX to the FReM should be expanded as per response to question 6 below
	2	No
	3	Yes we agree with the proposed blanket approach whereby all public sector bodies would retrospectively apply the standard without restatement. This will aid comparability for users, simplify any WGA implications and will make the audit process simpler as the auditors will be better prepared due to standard practice being adopted across the sector.
	4	Yes
	5	Yes, although the disclosure requirements are likely to require extensive work but timely HMT guidance around public sector income streams (levies, fines & penalties) will help to meet the requirements.
	6	Yes. Taxes, duties, fines and penalties are as a result of legislation and no performance obligations are present on part of the government and therefore income should not be deferred. The wording of 8.2.XX should although specifically mention levies and duties to avoid any confusion.

Department	Q.	Comments
	Other	In summary, BEIS does not anticipate the implementation of IFRS 15 to have a significant impact on its revenue recognition, due to the proposed FReM interpretation "that where statute or Treasury consent, the entity is permitted to keep income from taxation, fines and penalties, this revenue shall be accounted for under IFRS 15 para 15. The performance obligation step under IFRS 15 will not apply." This means that BEIS would recognise revenue when there is no remaining obligation to transfer goods or services to the customer, or substantially all, of the consideration promised to the customer has been received by BEIS and is non-refundable. This is the same as BEIS's current revenue recognition policy for taxation, fines and penalties. This is also applicable to levies and duties. BEIS recommends that the proposed FReM interpretation that taxation, fines and penalties are recognised under IFRS 15 para 15 is expanded to include levies and duties.
Department for Environment, Food and Rural Affairs	1	EA have indicated that they are broadly happy with the proposed amendments, but have concerns regarding the potential impact on fees and charges and the apparent conflict with Managing Public Money. The latter states that schemes must be cost recovery, and therefore surplus or deficits cannot be made over time. EA's fees and charges rates are set well in advance of the charging year, and are set on the basis of expected regulatory work undertaken associated with the whole charging scheme. There is not a standard set of performance obligations for each customer (as regulation is risk based). For example, although water abstraction permits are granted for a year, in practice there may large scale works associated with the scheme that could take a number of years to complete. Currently, therefore, EA have agreement with HM Treasury and the NAO to accrue or defer income on charging schemes based on costs recovery, so that arrangements balance over a reasonable period. Should the standard require that income and costs are not linked, this will introduce major fluctuations in charges, which would be unfair on customers. Also, the Departmental Expenditure Limit (DEL) outturn would be subject to these considerable fluctuations, meaning planning and budgeting are adversely impacted. To avoid these fluctuations, EA would welcome the allowance to continue managing fees and charges over a reasonable period. EA also propose that an allowance is granted so that customers may be grouped, otherwise the alignment of cost and charge levels at individual customer level would be highly burdensome.
	2	No this is not applicable
	3	Yes. We believe that this approach is sensible and pragmatic. EA have stated their belief that the extra disclosure requirements are appropriate for public sector
	4	Yes, although EA have expectations that there may be teething troubles, with the huge potential numbers of customers and contracts which would be impacted and therefore subject to review. There is also the issue of the timetable coinciding for both IFRS 15 and IFRS 9, meaning that considerable workloads for the simultaneous implementation of two standards must be managed

Department	Q.	Comments
	5	EA have commented that, as arguably the public sector does not generally have the complexity of contracts as their private sector counterparts, there is scope for a significant reduction in the level of disclosure required. We would also be interested to learn how the extended requirements would complement the agenda to streamline the disclosures within the Annual Report and Accounts.
	6	Yes. However, EA would wish to have assurances that current agreements granted to them by HM Treasury to retain income classed as taxation could be continued. For instance, HM Treasury allow EA to retain revenue from the granting of fishing licences (classed as taxation) in order to improve rivers for fishing
Department for Transport	1	We are in favour of maintaining consistency with Companies Act accounting as far as possible and so we are supportive of the proposed amendments
	2	We don't expect to recognise any such assets
	3	We agree with the proposed transition approach (retrospective application without prior period restatement) because it is consistent with the approach for the implementation of IFRS 9. However, there are consequences for budgets and Estimates that will need to be worked through.
	4	As a matter of policy, we think effective dates should be aligned with those applying in the private sector. The proposed effective date of 1 April 2018 (compared with the private sector effective date of periods starting on/after 1 January 2018) achieves this.
	5	We consider that the approach should be consistent with that applied in the private sector and therefore we are in favour of not adapting. We welcome the guidance that disclosures should be determined by materiality.
	6	As taxes, duties, fines and penalties are not exchange transactions (because the person/entity making the payment does not receive a direct related benefit) we consider that an accounting treatment applicable to revenues from contracts with customers is not relevant and we therefore accept retention of the current accounting treatment.
	Other	The Department is generally supportive of the two IFRSs being implemented within central government with the minimum amount of adaptation or delay from the approach applied in the private sector. We consider that this enhances the credibility of central government accounting. We also have members of the group which prepare accounts in accordance with the Companies Act (EU adopted IFRS) and any variation from the private sector approach increases the complexity for them of preparing their Companies Act accounts and their resource accounts consolidation packs.
Department for Health	1	DH agrees that the proposed amendments to the FReM are appropriate as the Working Group did not identify any problems with the principles of IFRS15 or specific circumstances that required public sector adaptations. A key concern highlighted in the DH group was ensuring that there is consistency in treatment of inter-group income and expenditure transactions. We therefore consider it would be useful if the FReM can establish the principle that for intra-government transactions the IFRS 15 principles for revenue are mirrored for the corresponding expenditure so that there is consistency and to enable transactions to be

Department	Q.	Comments
		effectively eliminated on consolidation. If the principle can be established in the FReM, then we can use this to underpin and reinforce the guidance we issue for the DH group.
	2	No assets of this nature have been identified by DH or group bodies
	3	DH agrees with the proposed approach to transition. We believe retrospective application with no restatement is preferable, being more consistent across the Group and will better facilitate the consolidation of both DH and WGA entities.
	4	DH agrees with the proposed effective date and considers the implementation of IFRS15 in 2018-19 seems to give a sufficient lead time for organisations to implement the standard. A delay at this stage would be unhelpful as it would reduce the benefit from our work to date in the DH group to increase awareness of the standard.
	5	DH agrees that the standards disclosure requirements can be applied to the public sector. We consider that it was useful that the ED set out considerations relating to disclosure – in particular emphasising materiality, stating information in segmental reporting need not be duplicated and disclosure on performance obligations can be an expansion of the accounting policy note. However we consider this clarification and emphasis would be beneficial to be included within the FReM to help the public sector application of the standard. We also welcome the commitment to issue additional application guidance for the disclosure requirements and consider that a key issue is whether the emphasis is on a segmental breakdown of contract income and/or focus on individual material contracts. Defining the information that will need to be collected for WGA is a further area for consideration.
	6	The DH Group has no significant income from levies, taxation, fines and penalties, but we agree with HMT's proposal for the accounting to remain unchanged, and application of IFRS15 (15a) as the criteria to recognise the revenue streams.

Department	Q.	Comments
Drivers and Vehicles Standards Agency	2	"IFRS 15 requires an entity to recognise as assets costs to obtain a contract if the entity expects to recover those costs." (4.26). The ED also states that "it may be difficult to identify a contract or a customer in the traditional sense in the public sector context in the case of fees, levies and charges. There is often a statutory requirement to pay government rather than it being a choice for the customer. Through discussions it was considered that a “contract” in these circumstances would be the legislation or regulations" (4.8). Does this therefore mean that the cost of creating new and/or updating existing legislation or regulations should be capitalised? Can you please confirm whether this is the case? In relation to updating existing legislation this would not ordinarily result in increased revenues. Typically DVSA may assign a number of staff to a project to create/update legislation for a finite period, say 12 months. In addition to this, there would be DfT central costs and even costs beyond DfT for getting the legislation through parliament. The internal DVSA costs are not capitalised on the basis that there is insufficient evidence of an intangible asset (per IAS38). Presumably the costs of creating legislation further up the chain are not capitalised either. Moreover, in the case that costs should be capitalised, over what period would it be expected for these assets to be amortised.

Department	Q.	Comments
Environment Agency	1	Yes – Overall the implementation of this FReM adjustment will improve revenue recognition. However, taking the points raised above, it is an omission that the FReM doesn't mention the requirements of managing public money. Therefore there is a need to include some guidance and agreement on how managing public money considerations can be accounted for within this framework. Fees and charges rates are set well in advance of the charging year, they are set on the basis of expected regulatory work undertaken associated with the whole charging scheme and there are not a standard performance obligation for each customer as regulation is risk based. Therefore in order to meet the requirements of managing public money that the charge is set on a cost recovery basis, which means there is a real risk that the IFRS 15 changes could result in an outcome that doesn't meet managing public money considerations. A potential solution would be for some guidance in the FREM to state that the performance obligation relating to fees and charges is the managing public money cost recovery principle. This would allow the Environment Agency to continue to regulate and run the charging schemes in the way that they are intended and will not affect other grant in aid funded activity. The only other solution to meet managing public money arrangements would be to bill or refund each customer at the end of the year depending on the amounts of expenditure required to regulate the scheme. This would have a large administrative burden on the Environment Agency which issues in excess of 100,000 invoices and also associated SSCL costs for processing as each invoice would need to be replicated either through an extra invoice or a refund. Without either of these two approaches, it would make budgeting and forecasting outturn verses departmental control totals highly volatile as outlined in the Appendix example
	2	No – none noted
	3	Yes – sensible approach to not do retrospective restatement. The extra disclosure requirements are appropriate for public sector
	4	No – I would think it sensible to have a FREM implementation date of 1 April 2019. The timetable from the issuing of FReM to implementation does not allow for adequate considerations of the system and budget impacts of the proposed changes.
	5	Yes – although guidance which a pragmatic approach would be welcome in order to streamlining the disclosures in line with that fact that public sector readers of financial statements do not require the level of disclosures investors in private companies require.
	6	Yes – sensible but I think it is an omission not to include a clarification of how this applies to fees and changes and managing public money (see question 1) and we would wish to have assurances that current agreements granted to EA by HM Treasury to retain income classed as taxation could be continued. For instance, HM Treasury allow EA to retain revenue from the granting of fishing licences (classed as taxation) in order to improve rivers for fishing.

Department	Q.	Comments
	Other	Impact on the Environment Agency: Significant – the application of IFRS 15 as applicable to the fees and charges the Environment Agency raises will be challenging without specific guidance on how the principles of managing public money applies to the standard (i.e. that fees and charges should be undertaken on a cost recovery basis). For these charging schemes, although the pooled customer approach would be applied, however most permits only apply to defined period (usually 1 April to 31 March) and yet work to service the customer group may span the financial year in question. So taking the standard without adaptation, the performance obligation as defined by reference to the individual contracts can only apply to the period of the license or period, however the work required to address the permit under the underlying guidelines and legislation may not follow the permitting year. An example is shown in the appendix. Under the current accounting standards, the Environment Agency is able to defer or accrue small levels of income to account for these timing differences which create in year surpluses and deficits. Without this mechanism, there would be impacts on grant in aid budgets. This is especially challenging when charge rates have to be set and approved well in advance of the financial year in question.

Department	Q.	Comments
Foreign and Commonwealth Office	Other	1. At the Foreign Office the large majority of operating income comes from recharges and income from the use of our overseas platform by other government departments. In looking at para 4.5 of the ED there is a requirement to identify the contract. IFRS 15 states (para 9) that a contract is an agreement between two or more parties that creates enforceable rights and obligations. With regard to MOUs with OGDs, we have no enforceable right to payment (the FCO cannot sue an OGD in law). The standard at para 15 then states *When a contract with a customer does not meet the criteria in paragraph 9 and an entity receives consideration from the customer, the entity shall recognise the consideration received as revenue only when either of the following events has occurred:* *(a) the entity has no remaining obligations to transfer goods or services to the customer and all, or substantially all, of the consideration promised by the customer has been received by the entity and is non-refundable; or* *(b) the contract has been terminated and the consideration received from the customer is non-refundable.* Furthermore in the Basis for Conclusions, the IASB decided to include requirements in IFRS 15.14-16 to prevent entities from seeking alternative guidance or improperly analogising to the model in IFRS 15 in circumstances in which an executed contract does not meet the criteria in IFRS 15.9. Consequently if we cannot apply IFRS 15 by analogy to contracts with OGDs then we will need to recognise revenue from OGDs only when no remaining obligation exists to transfer services to OGDs and we have all (or almost) all of payment from the OGD. Under the MoU for sharing our overseas platform FCO bills OGDs quarterly for use of the platform, which includes both direct and indirect cost (fixed per capita charge). Direct costs are charged on use, e.g. for use of vehicles (cost per mile). A thirty day payment term is included. We would need to recognise revenue as we currently do on an annual basis in return for use of the platform. HM Treasury should consider the fall-back position in para 15 as adopting IFRS 15 by analogy is not permitted within the standard. 2. There is a consequential amendment to IAS 16 within IFRS 15. This requires the use of IFRS 15 for the recognition and measurement of gains and losses arising from the sale of non-financial assets that are not an output of an entity's ordinary activities. The FCO has an agreement with HM Treasury to recycle proceeds from the sale of properties overseas to fund additions within the capital budget. IFRS 15 introduces a control model to determine when to derecognise the non-financial asset (i.e., when control is transferred). FCO will need to estimate consideration to measure the gain or loss following the requirements in IFRS 15. This may have an implication for determining impacts on the FCO's capital budgets. This issue doesn't appear to have been considered within the ED. There is also within IFRS 15 potentially an impact on service concession arrangements?

Department	Q.	Comments
Grant Thornton	1	In principle, we consider that where IFRS are adopted by the FREM these should be adopted without adaptation unless there are clear reasons why adaptations are necessary in a public sector context to provide more useful information to the reader of accounts or the costs of application outweighs the benefit to the reader of the accounts. In relation to the application of IFRS 15 there are no such compelling reasons and therefore we consider that IFRS 15 should apply without adaptation. In paragraph 4.8 of the consultation document it states: *'4.8 It was commented that it may be difficult to identify a contract or a customer in the traditional sense in the public sector context in the case of fees, levies and charges. There is often a statutory requirement to pay government rather than it being a choice for the customer. Through discussions it was considered that a “contract” in these circumstances would be the legislation or regulations providing the ability for the entity to impose a charge on the customer and the requirement for the customer undertaking the relevant activities to be liable to pay the charge. The existence of such legislation/regulations and the practice of the government imposing the fee, levy or charge would be deemed akin to customary business practices. The legislation would also provide the enforceability of the obligations on both parties.'* It would be helpful to include in the FREM paragraph 8.1.5, that in relation to fees, levies and charges, a 'contract' for the purposes of IFRS 15 would be the legislation/regulations which provide the ability for the entity to impose the charge and the requirement for the customer to pay. We consider that it would be useful to document this as a formal interpretation for the public sector and to clearly distinguish this from tax/ non-exchange transactions. We do however note that this interpretation may be considered inconsistent with IAS 32 which suggests that assets or liabilities created as a result of statutory requirements imposed by governments are not contractual and therefore not considered financial instruments.
	2	In relation to our client base of local authorities, significant assets will be recognised under non-exchange transactions in relation to council tax and business rates which may not be covered by the interpretation of fees, levies and charges above. These are currently considered to be non-contractual, non-exchange transactions and are accounted for in line with IPSAS 23 Revenue from Non-Exchange Transactions (Taxes and Transfers).
	3	We agree with option 2, retrospective application with no restatement. We consider that there could be practical problems in agreeing prior year inter-WGA balances and that the effort required in completing any exercise on this would outweigh the benefits. We agree that it is sensible to stipulate a transition approach to ensure consistency across the public sector.
	4	Yes, the proposal for IFRS 15 to be effective from 1 April 2018 is in line with the effective date in the standard. We do not consider there to be any significant reasons why this timetable cannot be achieved. It would be helpful if the FREM requirements were published in advance of the 2018/19 FREM to allow practitioners to prepare for implementation in advance. We note that CIPFA are planning to include the IFRS 9 requirements in an appendix to the 2017/18 Code of Practice Local Authority Accounting to enable practitioners to prepare for the requirements in advance.
	5	In principle, we consider that where IFRS are adopted by the FREM these should be adopted without adaptation unless there are clear reasons why adaptations are necessary in a public sector context to provide more useful information to the reader of accounts or the costs of application outweighs the benefit to the reader of the accounts. Therefore where as a result of IFRS 15 there are additional disclosure requirements that are material then these should be followed.

Department	Q.	Comments
	6	These are not covered by current IFRS but IPSAS 23 and therefore the current principles still remain relevant. We note that in some circumstances it may be difficult to distinguish between fees, levies and charges referenced in consultation paragraph 4.8 and taxes and duties and fines and penalties.
Department for Culture Media and Sports	1	We agree with the adoption of IFRS 15. It is expected this change won't impact DCMS Core and most of our ALBs except the BBC. However as the BBC are an IFRS body we want to maintain alignment on this standard
	2	We do not expect to recognise assets under IFRS 15
	3	DCMS believes the two options should remain open for organisations to select the approach which best suits their circumstances and the expectations of stakeholders
	4	Yes, we believe this gives enough time to introduce the required changes and will avoid alignment issues with our IFRS ALBs
	5	We agree with adopting the disclosure requirements of IFRS 15 in full however HMT should also stress materiality considerations with the NAO. Application guidance from HM Treasury would also be welcomed.
	6	Agreed
ICAEW	Other	Support for the Proposals 1. We welcome the opportunity to comment on HM Treasury's exposure drafts (EDs) on Application of IFRS 9 Financial Instruments for the public sector and Application of IFRS 15 Revenue from contracts with customers. We support the proposals as recommended by HM Treasury. There are no compelling reasons to introduce any additional interpretations for public sector adoption of these standards, and it is important to maintain close alignment between the FReM and IFRS. The Consultation Process 2. In contrast to HM Treasury's internal consultation, the external consultation period was very short and consequently ICAEW has not been able to undertake all aspects of its usual due process in the time available. As a result, this representation only sets out some major points rather than addressing the specific questions for comment. Application Guidance 3. The adoption of both IFRS 9 and IFRS 15 will in many cases require system updates and process changes to ensure compliance. HM Treasury should consider producing detailed application guidance, including example disclosure notes, to assist preparers in the transition phase and beyond. Suitability for Public Sector 6. Many government entities will be affected by IFRS 15, some, more commercially orientated bodies quite significantly (see paragraph 3 above). However, most revenue earned by government, in terms of value, is from taxation, fines and penalties, which are non-exchange

Department	Q.	Comments
		transactions and are not covered by IFRS 15. The International Public Sector Accounting Standards Board (IPSASB) are currently working on a public sector specific standard on non-exchange revenue and HM Treasury should keep monitoring the development of that standard. Scope of IFRS 15 7. There will be some instances when it will not always be immediately obvious whether transactions are in or out of scope of IFRS 15. The Treasury should monitor implementation to ensure that the timing of revenue recognition is appropriate.
Department for Communities and Local Government	1	Agreed. The proposed changes will ensure the public sector is in line with other sectors
	2	No. In DCLG, we have not been able to identify assets that will fall within IFRS 15.
	3	Yes, adopting option 2 will alleviate administrative burden on preparers of annual reports and accounts in the public sector
	4	Agree – it will allow enough time for DCLG to plan for full adoption
	5	We agree with paragraph 4.44 because upon initial consideration of IFRS 15 we do not believe DCLG will be overly affected by the additional disclosure requirement
	6	Yes. The current FReM principles of accounting for tax, duties, fines and penalties work well and therefore there seems to be no reason to change them
Homes and Communities Agency	Other	We have no comments to make on the exposure draft for IFRS15.
HM Revenue and Customs	1	Yes - this represents consolidated and clarified interpretations and adoption of existing guidance;
	2	Nothing additional to that currently recognised under the standards which IFRS 15 supersedes;
	3	Yes - noted there to be no understood impacts for HMRC to reporting under application of existing Standards;
	4	Yes - noted there to be no consequence to HMRC;
	5	Yes - no identified need to adapt;
	6	Yes - principles appear sound.
Home Office	Other	Home Office is content with the approach suggested in the ED for and IFRS 15 and have no further comments to make.
Companies House and Intellectual Property Office	Other	We did not feel there were any unmanageable consequences. The majority of our income comes from fees that are paid at the point the user takes up the service, so there is no invoicing of customers, and the fees have to be paid for us to provide the service – no fee means no statutory filing therefore no income to recognise.
Ministry of Defence	1	Yes
	2	No – none have been identified at this stage.

Department	Q.	Comments
	3	Yes – this appears to be the most appropriate approach.
	4	Yes
	5	Yes – while the disclosure requirements are onerous, the MOD agrees that materiality needs to be considered in determining whether entities are required to provide particular disclosures.
	6	Yes, the current treatments are appropriate.
Ministry of Justice	1	Yes. Amendments are minor and clarify existence of new applicable standard. Clarifies accounting for retained taxes and penalties
	2	No
	3	Yes, prefer not to restate comparatives if avoidable. Opening balance restatement reflects substance of change. However, not expecting MoJ bodies to face adjustments
	4	Yes, though not expecting to adjust
	5	Yes, if standard is material to entities then disclosure requirements are appropriate and useful for readers
	6	Yes. These are non-exchange transactions with a legislative basis. There are no performance obligations on the part of the entity.
Office for National Statistics	1	Yes
	2	I would not expect ONS to recognise any assets under IFRS15
	3	Yes
	4	Yes
	5	Yes
	6	Yes
Northern Ireland Executive	1	Yes, we agree with the proposed amendments to FReM to reflect IFRS 15 which seem to be minimal. However, it would be useful if FReM had specific section for developer contributions as it quite common in the public sector where there is a statutory obligation to adopt assets which don't fall under the donated assets category
	2	Yes, assets received from developers at no consideration. For example:- A road built by a developer and then adopted by Department for Infrastructure (DfI) at no consideration for DfI to maintain going forward.
	3	Yes, agree with transition (retrospective application but no statement) approach to ensure consistency and there would be less work involved if no restatement is required. However, further consideration would be needed on the budget impact of this approach. We also assume there would be no prior adjustments to go through the SSEs if this approach was taken.

Department	Q.	Comments
	4	Yes agree. This should provide us with sufficient time to put processes in place to allow prior period comparatives to be calculated and relevant information collected for disclosure requirements
	5	Yes, providing additional disclosures for each and every contract with a customer regardless of size would not be an effective use of time. If materiality is used correctly, then only those that are relevant would need to be disclosed. HMT needs to issue additional application guidance as stated in the ED so that the concept of materiality can be applied.
	6	Yes. Since the requirements under IFRS 15 are similar in this regard, there is no reason for the principles of accounting for fines and penalties paid to the consolidated fund to change.
Nuclear Decommissioning Authority	1	Agree – the principles of IFRS15 are as valid to long term contracts in the public sector as they are to the private sector. The principles of IFRS15 should provide a basis for public sector entities to introduce more accuracy and transparency to their revenue recognition processes, where relevant.
	2	No
	3	Agree that of the two options, option 2 (no restatement) is preferable in order to minimise the impact on the preparation of the financial statements.
	4	Agree – the implementation date allows for proper consideration of the implications for each entity concerned.
	5	Agree to the extent that proper consideration is given to the materiality of disclosures (as recognised in the exposure draft) and the need to recognise commercial sensitivity around the contracts themselves. In other words we want to avoid naming customers and attaching specific values to the contracts concerned, as such pricing information is valuable to the overseas competitors operating in the same markets. We would prefer disclosure to focus on for example the projected timing of future revenue recognition, identification of key factors impacting recognition, etc.
	6	Agree – the standard is clearly intended to deal with revenue recognition for long term contracts between provider and customer in which services are provided over a extended period of time and taxes, duties, fines and penalties do not fall into this category.

Annex B: FReM Extract

6 Applicability of accounting standards

6.1 EU adopted IFRS

6.1.1 A list of EU adopted IFRS is shown in Table 6.1, together with a record of whether they have been adapted or interpreted for the public sector context in this Manual. All standards apply to all reportable activities and reporting entities applying this Manual to the extent that each standard is relevant to those activities and in the light of any statutory requirements or other pronouncements that might from time to time be made by the relevant authorities. Where adaptations or interpretations are different for ALBs this is identified below.

Table 6.1

International Standard	Applies without adaptation	Applies as interpreted for public sector	Applies as adapted for public sector	Different adaptations or interpretation for ALBs
IFRS 15 Revenue from Contracts with Customers		•		

6.1 Interpretations and adaptations for the public sector context

6.1.1 Table 6.2 provides details of those adaptations and interpretations for the public sector context. Where an adaptation or interpretation to a standard results in an inconsistency with a related Interpretation issued by the IFRS Interpretations Committee (IFRIC) or Standards Interpretations Committee (SIC), that Interpretation is similarly adapted or interpreted. In all other case, IFRIC and SIC Interpretations will apply in full.

6.1.2 Chapter 10 of this Manual provides additional guidance on adaptations and interpretations for the Whole of Government Accounts.

Table 6.2

IFRS 15 Revenue from Contracts with Customers	
Interpretations	1) Where revenue that is not classified as a tax but is still received by government through legislation/regulations, the contract will be considered to be those legislation/regulations. 2) Where entities, with the approval of the relevant authority, are allowed to keep tax as revenue, this revenue shall be accounted for under IFRS 15 (15). The performance obligation step under IFRS 15 will not apply. **Further application guidance on accounting for revenue, as well as taxes and duties, is included in chapter 8**

7 Further guidance on accounting for assets and liabilities

Subsequent Measurement

7.1.61 Revenue received under any revenue sharing provision in the service concession arrangement should be recognised when all the conditions as laid down in ~~IAS 18~~ IFRS 15 have been satisfied.

8 Further guidance on accounting for income and expenditure

Retainable and non-retainable income

8.1.5 All income from contracts with customers should be recognised in the Statement of Comprehensive Net Expenditure in accordance with ~~IAS 18~~IFRS 15. Entities should refer to relevant standards for other sources of income. Only income that can be retained and set against resource or capital budgets should be recorded in the Statement of Parliamentary Supply. Departments should refer to Consolidated Budgeting Guidance to determine whether income may be retained and contact the relevant authority where approval to retain is required.

8.2 Consolidated Fund revenue

8.2.1 This section deals with revenue (and some associated expenditure) collected by entities on behalf of the Consolidated Fund which by statute or convention are due to the Consolidated Fund and where the entity undertaking the collection is consequently acting as agent rather than principal.

Taxes and duties

8.2.2 Taxes and duties are economic benefits compulsorily payable to public sector entities, in accordance with laws and regulations established to provide revenue to the government, excluding fines or other penalties imposed for breaches of laws or regulations.

8.2.3 In preparing their financial statements, entities will not recognise or measure the "tax gap". The "tax gap" is defined as the difference between the hypothetical amounts of revenues due, based on data on economic activity, and revenues receivable. Revenues receivable include both the tax yield from compliant taxpayers and estimates of amounts due from non-compliant, but known, taxpayers. Where taxes and duties are material, a statement should be included in the accounting policies note that the "tax gap" is not recognised in the financial statements.

8.2.4 Where taxes and duties are recognised on an accrual basis, they will be measured at the fair value of the consideration received or receivable, net of repayments. Revenue is recognised when a taxable event has occurred, the revenue can be measured reliably and it is probable that the economic benefits from the taxable event will flow to the collecting entity. All these elements are required to be satisfied.

8.2.5 Tax revenues are deemed to accrue equally over the period for which they are due. No revenue is recognised if there are significant uncertainties regarding recovery of the taxes due. The term "probable" means that the flow of revenue should be more likely than not to occur. Revenue should be accrued net of amounts not expected to be collected, which might be determined by reference to past trends in write-offs and remissions, the emerging position in-year, historical debt collection performance or by other appropriate means.

8.2.6 Where, exceptionally and with the consent of HM Treasury, taxes and duties are recognised on a cash basis, they will be recognised in the accounting period in which the tax is received by the entity and are measured at the cash amount received.

8.2.7 In the UK the main form of tax expense is personal tax credits. Tax credits are recognised in the Statement of Comprehensive Net Expenditure of the department which has responsibility for their payment. Where the financing required to fund tax credits may be deducted by statute from tax revenues collected before those revenues are remitted to the Consolidated Fund, the deduction and payment of these amounts is recorded in the trust statement as an appropriation of the revenue received.

Fines and penalties

8.2.8 Fines and penalties are economic benefits payable to government for breaches of laws or regulations where there is a statutory obligation to pay.

8.2.9 Fines and penalties are recognised at the time that the fine or penalty is imposed and becomes receivable by the entity. Where, on appeal, or for other legal reasons, the penalty is cancelled, the amount receivable is derecognised at the date of the successful appeal. Where a financial penalty is imposed, but with an alternative of a non-financial penalty, the financial penalty is recognised initially, but is derecognised if the option of the non-financial penalty is taken up.

8.2.10 Where fines and penalties are uncollectible or, for policy reasons, (other than the imposition of an alternative penalty), the entity decides that it is inappropriate to pursue collection, the amounts not collected are recorded as an expense. The amounts not collectible are estimated from the most appropriate data available to the entity.

Trust Statements

8.2.11 HMRC and certain other receivers of money which is by law payable into the Consolidated Fund are required to prepare accounts in a form to be directed by the Treasury and which are to be examined and reported on by the Comptroller and Auditor General.

8.2.12 The intention of the underlying legislation[14] is to require those entities collecting revenue on behalf of the Consolidated Fund to prepare separate statements ("Trust Statements"), from those for the entity and to include in Trust Statements details of the collection and allocation of that revenue.

8.2.13 The Treasury (or, where appropriate, sponsor department) will issue an accounts direction to each entity producing a Trust Statement. The format of the Trust Statement will be defined in the accounts direction. It will usually follow the principles set out in Chapter 5 "Form and Content of the Annual Report and Accounts" and must be published as part of the Annual Report and Accounts except where the Treasury or sponsor department directs otherwise. The requirement will be based on the underlying legislation of those entities collecting revenue on behalf of the Consolidated Fund and based on section 7 of the Government Resources and Accounts Act for other entities.

8.2.14 Trust Statements shall include the following revenue:

a) all income classified as taxation by the Office for National Statistics except where by statute the entity is permitted to keep that income. Guidance on how to classify income received can be found in Annex 4;

b) all amounts which, by statute, are to be surrendered or paid into the Consolidated Fund (either by the entity directly or by passing the collected funds to a third party who then pays over the amounts collected) or to another third party within Government;

c) all fines and penalties levied except where the entity is permitted by statute or with Treasury consent, to retain the penalties imposed; and

d) any other income which the Treasury may direct to be included.

8.2.15 Trust Statements shall also include the following expenditure:

a) the costs of collection and administration where there is express statutory provision for those costs to be deducted from the revenue collected;

b) the costs of compensating (limited to repayments and interest) those from whom taxes or penalties have been incorrectly collected. Other elements of compensation and related costs shall be accounted for in departmental accounts; and

c) any allowance for uncollectible amounts measured in accordance with IAS 39.

8.2.16 Where legislation requires or permits part of the revenue collected to be surrendered and part to be retained by the entity, the full amount shall be included in the Trust Statement, and the amount to be retained shall be recorded as an appropriation of net revenue in the Trust Statement (and, equally, as revenue in the Statement of Comprehensive Net Expenditure).

8.2.XX Where by statute or Treasury consent the entity is permitted to keep income from taxation, fines and penalties, this revenue shall be accounted for under IFRS 15 (15). The performance obligation step under IFRS 15 will not apply.

ANNEX 4

Links to relevant guidance

Introduction to classification webpage includes a guidance document on receipts which sets out the how actual or potential income streams are likely to be classified in the National Accounts by the Office of National Statistics.

https://www.gov.uk/government/publications/introduction-to-classification