



HM Treasury

The Government Financial Reporting Manual 2020-21

consultation draft

September 2019

Table of contents

	<u>Chapter 1 - Introduction</u>	1
1.1	The purpose of the Government Financial Reporting Manual (FReM)	1
1.2	The scope of the FReM	1
1.3	The structure and contents of the FReM	2
1.4	How to apply the FReM	2
1.5	The FReM review and update cycle	3
Part A: Purposes, principles and best practice		
	<u>2 – Government financial reporting principles</u>	4
2.1	Introduction	4
2.2	What is government financial reporting?	4
2.3	Annual reports and accounts	4
2.4	Purposes of government financial reporting	5
2.5	User engagement	6
2.6	Principles of government financial reporting	7
	<u>3 – Best practice in narrative reporting</u>	10
3.1	Introduction	10
3.2	The role of narrative reporting	10
3.3	Balance in narrative reporting	10
3.4	Context and trends	11
3.5	Design choices and graphics	11
3.6	Accessibility	11
3.7	Using clear English	12
3.8	Handling standardised content with care	12
Part B: The form and content of government annual reports and accounts		
	<u>4 – The annual report and accounts</u>	13
4.1	Introduction	13
4.2	Accounting principles for government annual reports and accounts	13
4.3	Consolidation and accounting boundaries	16
4.4	Reporting requirements beyond central government	17
4.5	Presentation to Parliament and publication	19
	<u>5 – The performance report</u>	20
5.1	Purpose of the performance report	20
5.2	Principles of the performance report	20
5.3	Performance overview	21
5.4	Performance analysis	22

	<u>6 – The accountability report</u>	27
6.1	Purpose and scope of the accountability report	27
6.2	Auditors and the accountability report	27
6.3	Structure of the accountability report	28
6.4	Corporate governance report	28
6.5	Remuneration and staff report	29
6.6	Supply and the Statement of Outturn against Parliamentary Supply (SOPS)	33
6.7	Other notes relating to parliamentary accountability	36
6.8	The Certificate and Report of the Comptroller and Auditor General to the House of Commons	37
	<u>7 – The financial statements</u>	39
7.1	Introduction	39
7.2	Statement of Comprehensive Net Expenditure	39
7.3	Statement of Financial Position	40
7.4	Statement of Cash Flows	40
7.5	Statement of Changes of Equity	40
7.6	Notes to the Accounts	41
Part C: Applying accounting standards to government annual reports and accounts		
	<u>8 – Adopting and interpreting IASs and IFRSs</u>	44
8.1	EU Adopted IFRS	44
8.2	Interpretations and adaptations for the public sector context	46
Part D: Further guidance for government annual reports and accounts		
	<u>9 – Further guidance on accounting boundaries</u>	58
9.1	Business combinations	58
	<u>10 – Further guidance on accounting for assets and liabilities</u>	60
10.1	Property, plant, and equipment (PPE)	60
10.2	Intangible assets	70
10.3	Impairments	70
10.4	Inventories	71
	<u>11 – Further guidance on accounting for income and expenditure</u>	73
11.1	Income	73
11.2	Accounting for supply	75
11.3	Consolidated fund revenue	75
11.3	Expenditure	78
11.4	Apprenticeship Levy	79

	<u>12 – Further guidance on pensions accounting for pensions</u>	80
12.1	Introduction	80
12.2	Accounting for termination benefits	80
12.3	Pensions accounting by public sector pensions schemes	81
	<u>13 – Whole of Government Accounts</u>	83
13.1	Introduction	83
13.2	Adaptations and interpretations applied to the Whole of Government Accounts	83
13.3	Other reporting requirements	85
13.4	Audit and publication	86
	<u>Annexes</u>	87
Annex 1	<u>Statement of Outturn against Parliamentary Supply illustrative disclosures</u>	
Annex 2	<u>Statement of Accounting Officer’s responsibilities</u>	
Annex 3	<u>Note on related party disclosures</u>	
Annex 4	<u>Differences between budgets and accounts</u>	
Annex 5	<u>Links to relevant guidance</u>	

consultation draft

Chapter 1 – Introduction

1.1 *The purpose of the Government Financial Reporting Manual (FReM)*

- 1.1.1 Controlling public spending is central to running the country. In a healthy democracy, the power to spend money comes with a responsibility to be open to scrutiny about how that power is used.
- 1.1.2 The Government Financial Reporting Manual (FReM) sets out core guidance for preparing government annual reports and accounts in the United Kingdom. It complements guidance on the handling of public funds published separately by the relevant authorities in England and Wales, Scotland and Northern Ireland.
- 1.1.3 The relevant authorities are:
- a) HM Treasury
 - b) the Welsh Government
 - c) the Scottish Government
 - d) the Executive Committee of the Northern Ireland Assembly
 - e) the Department of Health and Social Care
 - f) CIPFA LASAAC
- 1.1.4 The FReM is prepared following consultation with the Financial Reporting Advisory Board (FRAB) and is issued by the relevant authorities.

1.2 *The scope of the FReM*

- 1.2.1 The FReM applies directly to:
- all entities ('reporting entities'), and to funds, flows of income and expenditure and any other accounts (referred to collectively as 'reportable activities') that are prepared on an accruals basis and consolidated within Whole of Government Accounts (with the exception of the accounts of any reportable activities that are not covered by an Accounts Direction);
- But not to:
- Local Government,
 - those Public Corporations that are not Trading Funds, and
 - NHS Trusts, NHS Foundation Trusts and Clinical Commissioning Groups.
- 1.4.2 The Department for Health and Social Care Group Accounting Manual, the NHS Foundation Trust Annual Reporting Manual and the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom are compliant with this Manual other than for specifically agreed divergences.
- 1.4.3 In addition, the Welsh Government and the Department of Health, Social Services and Public Safety in Northern Ireland will apply the principles outlined in the FReM in the accounting guidance that they issue in respect of Local Health Boards in Wales, and Health and Social Services Trusts in Northern Ireland.

1.3 *The structure and contents of the FReM*

1.3.1 The FReM consists of this introduction followed by four sections of guidance, each with its own purpose:

Part A: Purposes, principles and best practice, including:

- Chapter 2 – Government financial reporting principles
- Chapter 3 – Best practice in narrative reporting

Part B: The form and content of government annual reports and accounts

- Chapter 4 – The annual report and accounts
- Chapter 5 – The performance report
- Chapter 6 – The accountability report
- Chapter 7 – The financial statements

Part C: Applying accounting standards to government annual reports and accounts

- Chapter 8 – Adopting and interpreting IASs and IFRSs

Part D: Further guidance for government annual reports and accounts

- Chapter 9 – Further guidance on accounting boundaries
- Chapter 10 – Further guidance on accounting for assets and liabilities
- Chapter 11 – Further guidance on accounting for income and expenditure
- Chapter 12 – Further guidance on accounting for pensions
- Chapter 13 – Whole of Government Accounts

1.3.2 Five annexes give illustrative wording on specific points and links to further resources. Full illustrative financial statements are also available from gov.uk.

1.4 *How to apply the FReM*

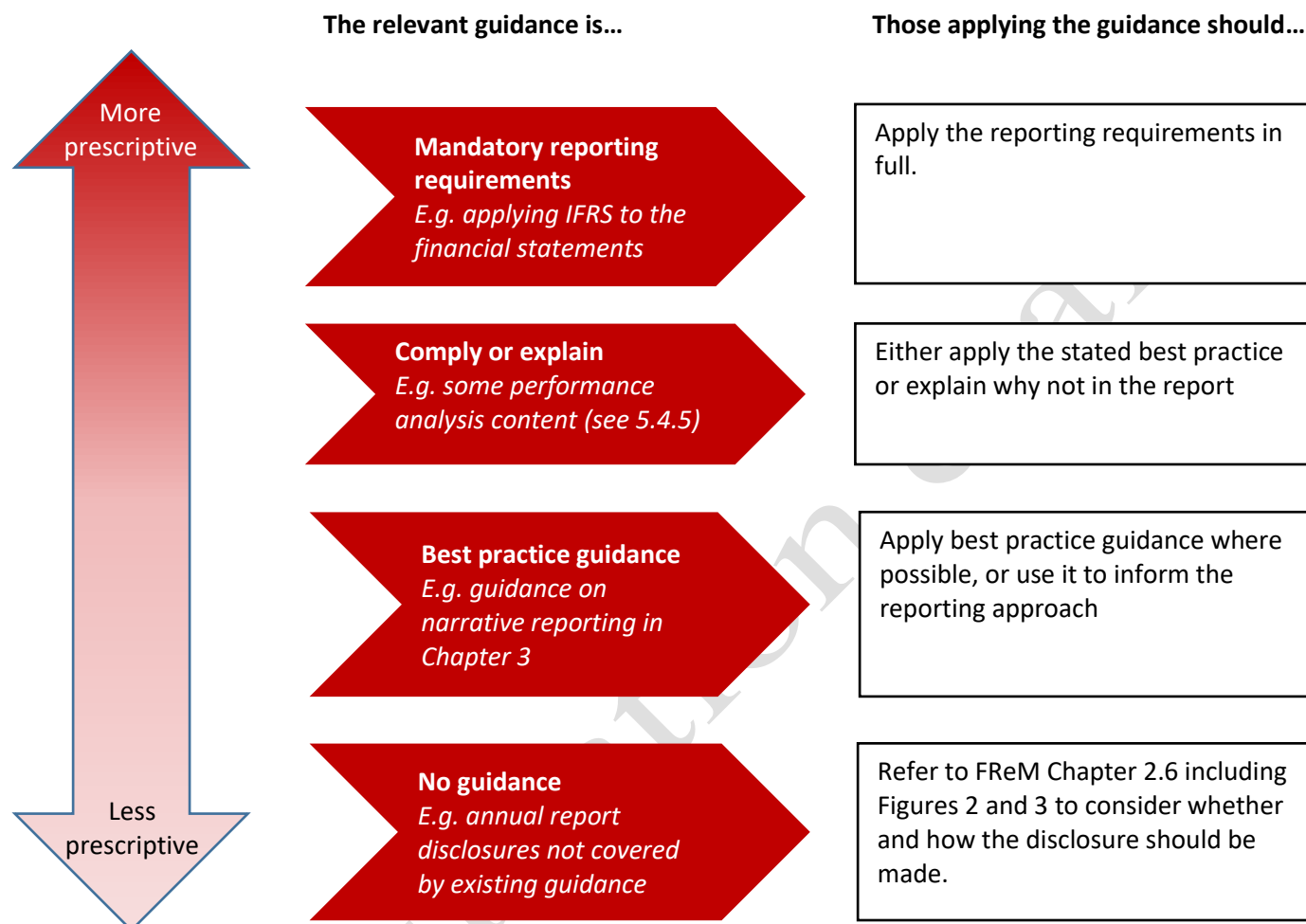
1.4.1 Government annual reports and accounts are prepared within a principles-based framework. The Treasury and other relevant authorities make many of the decisions about how best to apply the principles to reports across government. This ensures consistency, making it easier for users to understand and compare financial reports.

1.4.2 Annual reports and accounts are composite documents, bringing together different kinds of information. This Manual sets out mandatory reporting requirements for the financial statements, and for some parts of the annual report. It also includes less prescriptive guidance to support a more flexible approach in other parts of the annual report.

1.4.3 Some areas of best practice apply in most situations, but either cannot be applied or would be misleading if applied in others. In these cases, the guidance may specify a 'comply or explain' approach. This means that entities applying this Manual must either follow the stated best practice, or provide an explanation in their report for their preferred alternative.

The comply or explain approach should only be taken where specified in the guidance, and never applied in place of a mandatory requirement.

1.4.4 Figure 1 shows the different levels of guidance, from more to less prescriptive, and how they should be applied to develop high quality financial reports.



NB All requirements introduced with 'shall', or audited, are mandatory. The guidance states explicitly when it should be applied on a comply or explain or best practice basis.

• Figure 1: levels of prescriptiveness in financial reporting guidance

1.5 The FReM review and update cycle

- 1.5.1 The FReM is kept under constant review. It is updated to reflect developments in relevant financial reporting standards and best practice and, where appropriate, comments received from users and preparers.
- 1.5.2 The authoritative version of the FReM for any given financial year will be available by the start of the financial year to which it relates. In the event of the need for mid-year updates to the FReM, they will be issued by the relevant authorities after following due process.
- 1.5.3 Due process includes consideration of proposed policies by the relevant authorities and consideration by FRAB.
- 1.5.4 FRAB meeting minutes and papers are published on gov.uk.

Part A: purposes, principles, and best practice

Chapter 2 – Government financial reporting principles

2.1 Introduction

2.1.1 This chapter sets out:

- what government financial reporting is
- what government financial reporting is for
- the principles of government financial reporting

2.1.2 The principles in this chapter apply to all government financial reporting. The rest of the Government Financial Reporting Manual (FReM) gives full guidance on how to apply these principles to prepare government annual reports and accounts.

2.2 What is government financial reporting?

2.2.1 Every government body generates a data trail giving details of its financial activity. Filtering and combining this raw data creates useful financial information. For example, a list of every purchase made by an organisation is raw data. One way of turning it into financial information would be to combine data to make it more meaningful, such as breaking expenditure down by categories such as IT equipment, or staff training.

2.2.2 When government financial information is collected and shared, it becomes a financial report. Government financial reports can be internal or external, looking forward (as in budgets) or historical (as in accounts). Each has its own purpose and forms part of the wider structure of public finance.

2.3 Annual reports and accounts

2.3.1 The system of annual reports and accounts is central to financial accountability in the public sector. These reports bring together information on the financial position and

activity of a government body, or (in the case of consolidated departmental accounts) of a whole area of government across many different bodies.

- 2.3.2 A set of government annual reports and accounts includes a performance report, an accountability report, and the financial statements with their associated notes.
- 2.3.3 Financial statements are prepared according to International Financial Reporting Standards (IFRSs) and International Accounting Standards (IASs) as adopted and interpreted in the FReM.
- 2.3.4 The IFRS Conceptual Framework includes two fundamental qualitative characteristics of useful financial information: relevance, and faithful representation.
- Relevant financial information is capable of making a difference in the decisions made by users, and may have predictive value, confirmatory value, or both.
 - A faithful representation is, to the maximum extent possible, complete, neutral and free from error.

Useful financial information, with both of these characteristics, is essential for the financial statements (and therefore the annual report and accounts) to be fair, balanced and understandable.

- 2.3.5 See Chapter 5 for more on the performance report, Chapter 6 for more on the accountability report, and Chapter 7 for more on the financial statements.

2.4 *Purposes of government financial reporting*

- 2.4.1 The four principal purposes of government financial reporting are :
- to maintain and ensure parliamentary control of government spending, enabling, in particular, Parliament to hold the Government accountable for its spending,
 - to enable the public and researchers (both in civil society and Parliament) to understand and consider the value for money offered by public spending, so that they can make decisions about the effectiveness, efficiency, and economy of particular policies or programmes,
 - to provide a credible and accurate record which can be relied upon,
 - to provide managers inside departments (including both Ministers and civil servants) with the information they require to run the departments and their agencies efficiently and effectively.
- 2.4.2 All government financial reports should meet one or more of these purposes. Public sector annual reports and accounts should meet all of them. Enabling parliament to hold the Government to account (parliamentary accountability) is, however, the key purpose of government annual reports and accounts. If there is any conflict between meeting different purposes, then the needs of Parliament take precedence.
- 2.4.3 Parliament in the context of the FReM is defined as:
- The Westminster Parliament;
 - the Scottish Parliament;
 - the National Assembly for Wales; and

- the Northern Ireland Assembly.

2.4.4 The application of EU-endorsed IFRS, as adapted and interpreted for the public sector context (see Chapter 8) with additional disclosure when necessary, is presumed to result in financial statements that meet the needs of Parliament and other users, and to give a true and fair view (see Chapter 4).

2.5 User engagement

2.5.1 Each of the four purposes of government financial reporting reflects the needs of a different group of users. The best way of assessing whether a financial report is fulfilling its purpose, therefore, is to ask those users for feedback.

2.5.2 Another benefit of engaging directly with users is to raise the profile of reports and help them reach a wider audience.

2.5.3 Those preparing government financial reports can increase user engagement both passively, by making their reports more accessible, and actively, by reaching out directly to known users.

2.5.4 The primary user of government annual reports and accounts is Parliament. Select Committees review consolidated departmental annual reports and accounts, and the Public Accounts Committee (PAC) holds hearings on Whole of Government Accounts.

2.5.5 Those preparing annual reports and accounts should actively engage with their users. For example, preparers at the departmental level should seek feedback from the relevant Select

Committee. Having conversations about the nature and use of the annual report and accounts will help preparers meet the needs of parliament.

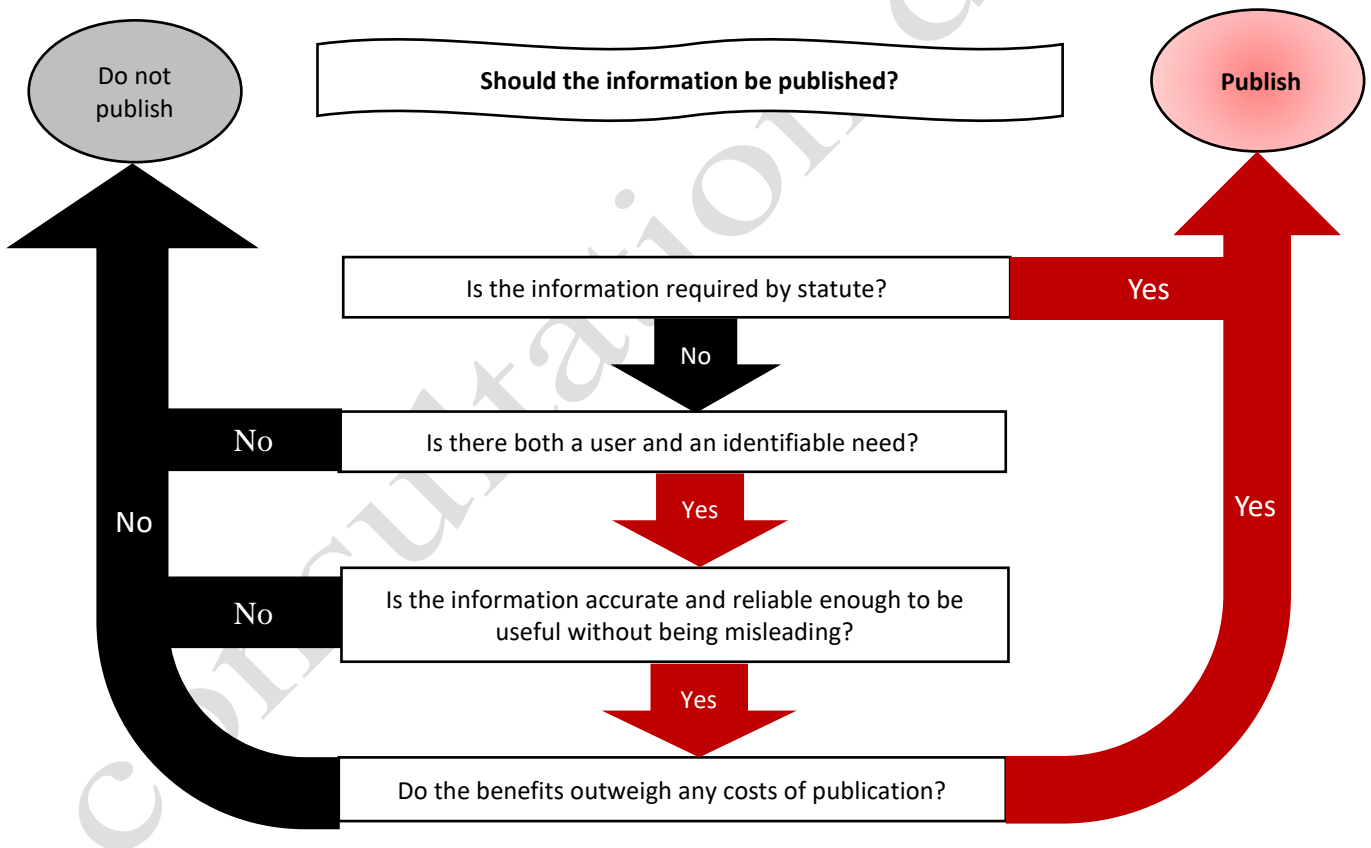
2.6 Principles for government financial reporting

2.6.1 Every government body is unique, and no two government reports have exactly the same story to tell. There are, however, some fundamental principles that help.

Choosing what to publish and how to publish it

2.6.2 Many aspects of government annual reports and accounts are long established in law, precedent, and best practice. The flexible nature of the annual report, however, means that new disclosures may be suggested at any time.

2.6.3 Accounting Officers across the public sector take ultimate responsibility for what is included in the annual report and accounts. Where there is no existing guidance, therefore, it is the Accounting Officer who needs to be comfortable with any choices made in selecting new information to be published, and in deciding how to publish it.



• Figure 1: disclosure decision tree part 1

2.6.4 Transparency, and therefore accountability, depends not just on how much data is published but on how it is turned into information that readers can understand. Making reports longer can make them unreadable. Too much information can be difficult to absorb, and as unhelpful or misleading as too little information would be.

2.6.5 Figures 2 and 3 give a two-part decision tree to support all those considering whether to publish financial information in a report. The set of questions in Figure 2 help determine

whether information should be published, and those in Figure 3 help determine whether a given report is the right place for that publication.

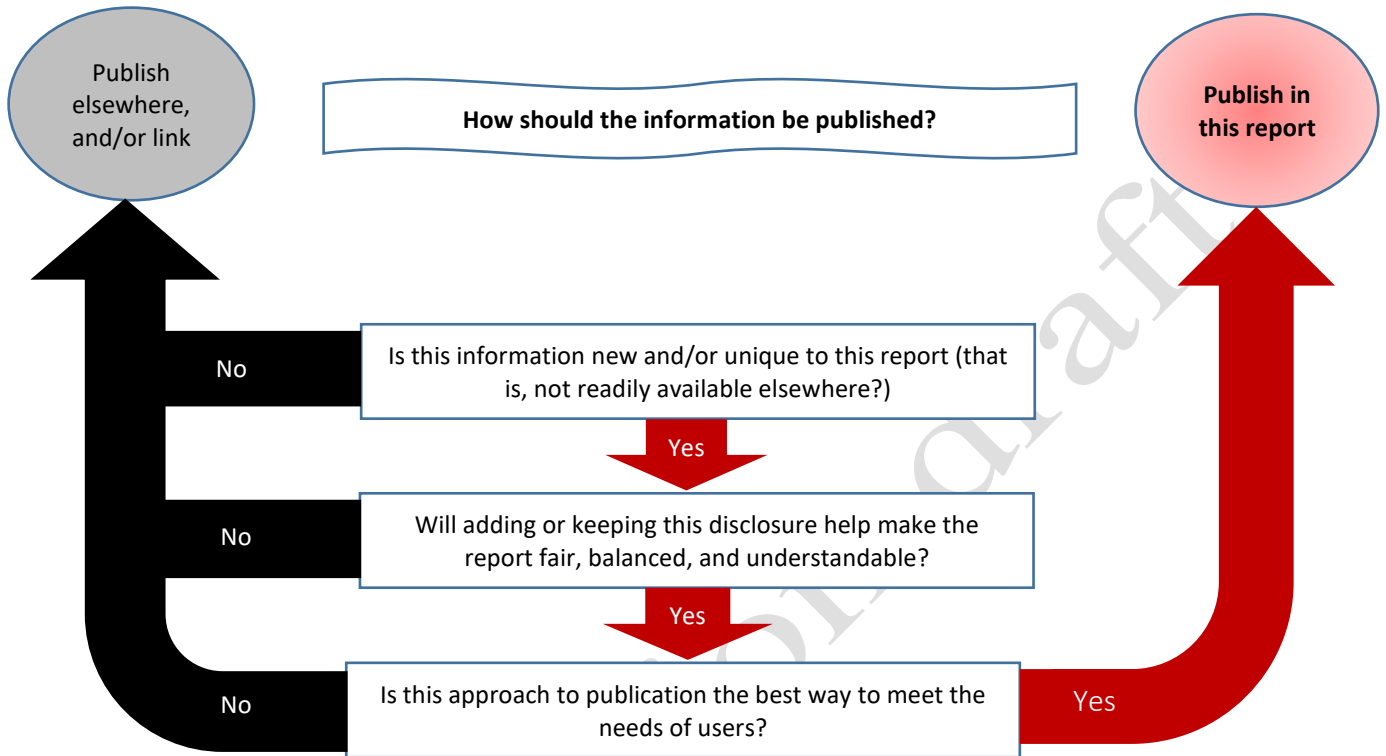


Figure 2: disclosure decision tree part 2

Balanced reporting

2.6.6 Government annual reports should be trustworthy and transparent. The Accounting Officer is responsible for ensuring that, taken as a whole, they are fair, balanced, and understandable. A financial report that only tells the good news may undermine readers' trust even if it is accurate as far as it goes.

2.6.7 Two useful questions to help those preparing annual reports assess them for balance are:

1. Is this report complete? That is, does it refer to everything that is relevant?
2. Does this report put the information it contains into full context?

2.6.8 Chapter 3 of this Manual provides more guidance on best practice in narrative reporting. Chapter 6 provides more guidance on the responsibilities of the Accounting Officer in respect of the annual report and accounts.

Balancing cost and usefulness in reporting

2.6.9 Collecting data requires investment in systems, and turning that data into usable information, and that information into a readable report, requires time and skilled

judgement. This means that every solid disclosure in a set of annual reports and accounts comes with a cost.

- 2.6.10 Relevant authorities consider the cost of reporting when interpreting or adapting reporting standards and developing guidance. All government bodies have a duty to use public money well, and Accounting Officers should therefore also consider value for money when making the judgements about financial reporting that fall into their remit.
- 2.6.11 Reporting entities may not choose to disregard mandatory reporting requirements due to value for money concerns, but should raise those concerns with the appropriate Relevant Authority.
- 2.6.12 If cost is the reason given for not following best practice in a comply or explain scenario, the explanation should include enough details to allow a user to understand why best practice, in that instance, would not give value for money.

consultation draft

Chapter 3 – Best practice in narrative reporting

3.1 Introduction

- 3.1.1 This chapter gives best practice guidance for developing narrative in government financial reporting.
- 3.1.2 Most financial reports include narrative. In the annual report and accounts, for example, the performance report and accountability report are mostly narrative, and there are extensive notes giving context to the financial statements.
- 3.1.3 This chapter discusses:
- The role of narrative reporting;
 - Balance in narrative reporting;
 - Context and trends;
 - Design choices and graphics;
 - Accessibility;
 - Using clear English; and
 - Handling standardised content with care.
- 3.1.4 [Annex 5](#) provides a range of links to resources for better narrative reporting.

3.2 The role of narrative reporting

- 3.2.1 Chapter 2 discusses the difference between data, information, and reports. Financial information is data selected to tell a story, and in a report the role of the narrative is to make that story clear to readers.
- 3.2.2 The narrative elements of government financial reports are crucial for meeting the needs of users as they provide context and information to support the financial information presented. Narrative that is confusing, repetitive, or misleading can undermine the whole purpose of a report.
- 3.2.3 There is no single right way to prepare the narrative elements of a financial report. Some specific pieces of narrative may be required in a certain format. In most cases, though, mandatory guidance only states what should be included in the narrative, not how to say it. This is because every organisation, situation, and audience, is different.

3.3 Balance in narrative reporting

- 3.3.1 The narrative is the part of a government financial report that shapes its message. Preparers must choose how best to tell the story to achieve a fair, balanced, and understandable report. That can be in words, through images, or through design choices in style and structure.
- 3.3.2 As Parliament is the primary user of a department's annual report and accounts, preparers should consider whether the narrative meets the needs of Parliamentarians who might read it. Meeting the requirement for an annual report and accounts is fair, balanced, and understandable is essential to meeting the needs of Parliament.
- 3.3.3 Preparers should also consider each part of the narrative in the context of the report as a whole. When a report is wide-ranging, different authors may draft different sections. The final product should stand as a whole, with the narrative in every section working together to create a single joined-up story.

3.4 *Context and trends*

- 3.4.1 Context is key to understanding what any number in a financial report means. Every financial fact is made up of several separate pieces of information, put together to tell a story.
- 3.4.2 Sharing trend data helps build trust by the user of the information. It provides context and in this way gives users confidence that the numbers have not been cherry picked to the benefit of the entity preparing the report.
- 3.4.3 Showing one prior year comparison helps, but it is best practice to present several years of data. Five years of comparison is a good target that will make the trend clear. Information may be added year on year as it becomes available.
- 3.4.4 Preparers of annual reports and accounts have a comply or explain requirement to report on trend data in the Performance Analysis section, as set out in section 5.4 of this Manual. Data trends can also be shared in graphs or tables, or in a footnote, or with a link to another part of a report.
- 3.4.5 Narrative explanations can help the user to make connections and understand conclusions. Adding context with both narrative and numbers gives a user the best possible support to understand the story set out in a report.

3.5 *Design choices and graphics*

- 3.5.1 The layout and design choices influence how a reader understands a financial report. For example, it is likely that the reader will assume the first item in a list is the most important.
- 3.5.2 Preparers can use design choices to direct a reader's attention, to put information in context, or to make things easier to grasp. For example, headings and subsections can break up a report and show how one point relates to another.
- 3.5.3 Graphics are powerful tools for sharing concepts at a glance. They work best when they:
- (a) serve a clear purpose;
 - (b) show relationships that are more difficult to describe in words;
 - (c) are properly labelled; and
 - (d) are supported by sufficient narrative.
- 3.5.4 Graphics are also more accessible when they rely on shape and layout to tell a story. Contrasting colours may appear differently to different readers, or on different screens.
- 3.5.5 Graphics, and other design choices, can be misleading. Preparers should consider possible alternative readings and be careful that the narrative in their annual reports and accounts conveys the intended message.

3.6 *Accessibility*

- 3.6.1 Many users of government financial reports will access them online in the first instance. This means that the landing page can be integral in influencing the user's experience of the report.
- 3.6.2 The format of the report also has implications for users. Search engines will pick up key words from web pages, but will only read the title of a pdf report. Spreadsheet formats are easier for users who want to use tables of data, but do not include much narrative.

- 3.6.3 Many users may be looking for specific information. The easier it is to navigate across a report, the less time they will have to spend searching. Ways to improve reader navigation include:
- (a) informative chapter or section headings;
 - (b) a clear integrated structure and contents list;
 - (c) concise summaries of key points; and
 - (d) the use of internal links throughout a report.
- 3.6.4 Preparers can take practical steps to help users find the information they are looking for by:
- (a) adding text to the landing page to help search engines find the report;
 - (b) sharing transparency data in spreadsheet format such as Excel or the more flexible .CSV format;
 - (c) when one report relates to another, giving a link between landing pages; and
 - (d) designing the structure and internal links in a report to help users find what they are looking for.

3.7 Using clear English

- 3.7.1 Clear and simple language makes reports easier for a wide range of people to read. Even when the subject of a report is complicated, using clear English makes the narrative easier to read. Some useful goals are:
- (a) keep sentences short, with an average length of 15 to 20 words;
 - (b) avoid acronyms; and
 - (c) where possible, use active verbs.
- 3.7.2 These are guidelines rather than rules. Preparers should use their judgement, informed on an ongoing basis by feedback from those who use their reports.

3.8 Handling standardised content with care

- 3.8.1 Many people drafting narrative for financial reports start with relevant examples, such as last year's report. This can be helpful, but can also lead to problems.
- 3.8.2 Text copied from one place to another tends to grow less readable with each transfer to a new context. Over time, large sections of repeated text can be off-putting to users, making reports unwieldy.
- 3.8.3 To avoid repeating unnecessary text, preparers of narrative reporting should reconsider every piece of text before reusing it:
- Does it meet the needs of the reports primary users?
 - Does it fit with the rest of the report?
 - Does it still reflect best practice, or could it be revised for clarity in its new context?
- 3.8.4 Some standardised definitions and descriptions are mandated by guidance to ensure that reports are consistent across government. Relevant authorities should keep standardised wording to a minimum and review it on an ongoing basis.

Part B: form and content of the annual report and accounts

Chapter 4 - The annual report and accounts

4.1 *Introduction*

- 4.1.1 This chapter gives an overview of the required format and content of the annual reports and accounts for entities covered by the requirements of this Manual.
- 4.1.2 The exceptions to this format are pension schemes (see chapter 12), and reportable activities.
- 4.1.3 Reportable activities is a collective term for funds, flows of income and expenditure, and any other accounts that are not entities, but have their own accounts directions, are prepared on an accruals basis, and are consolidated into the Whole of Government Accounts. The FReM applies directly to reportable activities in most respects, but their format, as set out in their accounts direction, may differ from the guidance in this chapter.

Structure of public sector annual reports and accounts

- 4.1.4 The annual report and accounts comprises:
- a) The performance report, discussed in chapter 5;
 - b) The accountability report, including (where relevant) the Statement of Parliamentary Supply (SOPS), discussed in chapter 6; and
 - a) The financial statements, discussed in chapter 7.
- 4.1.5 Reporting entities must prepare and publish an annual report and accounts as a single document unless the relevant authorities have specifically agreed otherwise.
- 4.1.6 Illustrative financial statements are provided on the gov.uk website.

4.2 *Accounting principles for government annual reports and accounts*

- 4.2.1 The Treasury, according to [Managing Public Money](#) 1.4.3:
 “sets the standards to which central government organisations publish annual reports and accounts in the Financial Reporting Manual (FReM). This adapts International Financial Reporting Standards (IFRS) to take account of the public sector context”
- 4.2.2 The IFRS Conceptual Framework 2018 sets out the principles that underlie general purpose financial reporting under IFRS.
- 4.2.3 Applying IFRS to government annual reports and accounts ensures that they are prepared according to an internationally recognised standard of accounting excellence. This chapter gives a high level overview of the principles of applying IFRS and general best practice in accounting to achieve the four purposes of government financial reporting set out in FReM paragraph 2.4.1.
- 4.2.4 This 2020-21 edition of the FReM applies EU adopted IFRS and Interpretations in effect for accounting periods commencing on or after 1 January 2020¹.

Generally Accepted Accounting Practice (GAAP)

- 4.2.5 The accounting policies contained in the FReM follow generally accepted accounting practice (GAAP) as adapted and interpreted in the public sector context. Although the

¹ Early application of EU adopted IFRS before the effective date is permitted with the consent of the relevant authority

term 'GAAP' has no statutory or regulatory authority, for the purposes of the FReM, GAAP is taken to be:

- the accounting and disclosure requirements of the Companies Act 2006 (the Companies Act)
- IFRS Standards and Interpretations, and other related material, including:
 - EU-endorsed IFRS (IAS and IFRS Standards and IFRIC Interpretations) as adapted or interpreted for the public sector context by this Manual,
 - the Conceptual Framework for Financial Reporting,
 - the Basis for Conclusions relating to IFRS Standards and IFRIC Interpretations,
 - Other pronouncements (for example, educational material) issued or published by the International Accounting Standards Board or by its Board members and staff.
- reporting in accordance with the appropriate sectoral manual or direction from its relevant authority e.g. Statement of Recommended Practice (SORP) for Charities (see 'Scope of the FReM' for more detail on applicability)

4.2.5 These requirements and standards should be interpreted as necessary in the light of the body of accumulated knowledge built up over time and shared in textbooks, technical journals and research papers as examples.

Parliamentary accountability and regularity

4.2.6 In addition to the general principles underlying GAAP, reporting entities and reportable activities covered by the requirements of this Manual need to apply two additional principles – parliamentary accountability and regularity. These principles are explained in the context of the relevant authorities in [Managing Public Money](#).

Historical cost convention

4.2.7 Financial statements should be prepared under the historical cost convention, modified by the revaluation of certain assets and liabilities as determined by the relevant accounting standards, and subject to the interpretations and adaptations of those standards in this Manual.

A true and fair view

4.2.8 All financial statements prepared in accordance with the FReM (except the National Insurance Fund cash accounts and those parts of the Consolidated Fund accounts that are prepared on a cash basis) should give a true and fair view of the state of affairs of the reporting entity or reportable activity at the end of the financial year and of the results for the year.

4.2.9 The application of EU-endorsed IFRS, as adapted and interpreted for the public sector context (see Chapter 8) with additional disclosure when necessary, is presumed to result in financial statements that give a true and fair view.

4.2.10 In extremely rare circumstances, an entity may conclude reporting in compliance with the FReM (or with financial reporting standards as interpreted by the FReM) would be so misleading that it would prevent the financial statements (and therefore the annual report and accounts) from giving a true and fair view. In that situation:

- a) The entity should follow the principles set out at paragraphs 20-24 of IAS 1, and depart from the FReM requirements.
- b) Any material departure from the FReM should be discussed in the first instance with the relevant authority (through sponsoring bodies where appropriate).
- c) The details of any departure, the reasons for it and its effects should be disclosed in the financial statements.

- d) The Accounting Officer, or other person who is required to approve the accounts, should not provide approval unless they are satisfied that the accounts give a true and fair view of the assets, liabilities, financial position and net income or expenditure of the entity, and where relevant, of the group.

Conceptual Framework for Financial Reporting

- 4.2.11 The primary users of financial reporting identified in the IFRS Conceptual Framework are existing and potential investors, lenders and other creditors. By contrast, Parliament is the primary user of government annual reports and accounts, which enable Parliament to hold the government to account².
- 4.2.12 The primary user of the annual reports and accounts covered by this Manual is Parliament, as defined in 2.4.3. Other users, as discussed in [Chapter 2](#), include the public, researchers, relevant authorities, creditors, suppliers, and managers inside departments.
- 4.2.13 Preparers of financial statements should have regard to:
- the underlying assumption that financial statements shall be prepared on a going concern basis
 - the qualitative characteristics of financial statements
 - the elements of financial statements
 - the recognition of the elements of financial statements
 - the measurement of the elements of financial statements.
- 4.2.14 Most of the entities covered by the requirements of this Manual will prepare general purpose financial statements that are sufficient for the needs of their primary users. However, where departments are required by the relevant legislation to demonstrate accountability to Parliament, they should prepare a statement on parliamentary accountability, which can be regarded as a special purpose financial report.
- 4.2.15 The Conceptual Framework provides the concepts and guidance that underpin the decisions the IASB makes when developing IFRS Standards. The Conceptual Framework is not a Standard and does not override any Standard or any requirement in a Standard.
- 4.2.16 IAS 8 paragraphs 10-12 set out requirements and guidance that applies for the purposes of developing an accounting policy in the absence of an IFRS that specifically applies to a transaction, other event or condition. Entities in this situation should discuss this with their relevant authority at the earliest opportunity.

Applying IFRSs

- 4.2.17 Preparers of financial statements should consider materiality when applying IFRSs as interpreted and adapted in the FRM for the public sector:
- in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, accounting policies set out in IFRSs need not be applied when the effect of applying them is immaterial
 - in accordance with IAS 1 *Presentation of Financial Statements*, a specific disclosure requirement in a Standard or in an Interpretation need not be satisfied if the information is not material (disclosures should be limited to those necessary to give a true and fair view)³
 - preparers do not need to develop accounting policies, or provide disclosure notes, relating to accounting standards that do not apply to their circumstances or are not material

² 3.6 [The government financial reporting review](#) (HM Treasury, 2019).

³ In line with IFRS Practice Statement 2: *Making Materiality Judgements* issued by the IASB September 2017

- d) Additional commentary on matters that are not material may be provided if it is helpful to the user, whether in the accounting policy note or next to an individual disclosure note
 - e) Entities may apply new IFRSs before the effective date, with the consent of the relevant authority.
- 4.2.18 The way entities are required to implement in full, adapt or interpret the various IFRSs are detailed in chapter 8.

Accounting policies and budgetary controls

- 4.2.19 Reporting entities that comply with the FReM also prepare budgets on a resource (accruals) basis and are subject to control by the relevant authorities. Entities should refer to *Consolidated Budgeting Guidance 2019-20*, published by HM Treasury.
- 4.2.20 Accounting policies are generally common to both accounting and budgeting. An overview of the main differences between budgets and accounts is included in Annex 5.
- 4.2.21 In selecting relevant accounting policies, entities should have regard to budgetary and control requirements, but should give paramount importance to the need for financial statements to give a true and fair view.
- 4.2.22 Preparers of financial statements need to consult with the relevant authority (through sponsoring bodies where appropriate) before changing significant accounting policies and estimation techniques where it appears that there could be a potential impact on budgets and on the National Accounts.
- 4.2.23 Where preparers consider it necessary to adjust retrospectively for changes in accounting policies or material errors, they should first contact the relevant authority (through sponsoring bodies where appropriate) to ensure that the budgeting and Estimates implications have been properly considered.
- 4.2.24 Departments are required to report outturn against Estimate in the Statement of Outturn against Parliamentary Supply, which forms part of their accountability report. See chapter 6.

4.3 Consolidation and accounting boundaries

- 4.3.1 Entities preparing financial statements within the scope of this Manual shall prepare annual reports and consolidated financial statements as follows:
- a) Departments shall prepare annual reports and consolidated financial statements (as defined in Chapter 5 of this Manual) covering all entities designated for consolidation;
 - b) Executive agencies shall prepare annual reports and consolidated financial statements in accordance with the requirements of IFRS 10, IFRS 11, IFRS 12, IAS 27 and IAS 28, 'the Group Accounting Standards' insofar as those subsidiaries and investments are within the controlling department's consolidation boundary;
 - c) Arm's length bodies shall prepare consolidated financial statements in accordance with the requirements of Group Accounting Standards, without adaptation and interpretation.

Designation

- 4.3.2 The departmental boundary is similar to the concept of a group under generally accepted accounting practice, but is based on control criteria used by the Office for National Statistics to determine the sector classification of the relevant sponsored bodies.
- 4.3.3 Except where legislation requires otherwise, departments will account for subsidiary undertakings in accordance with the Group Accounting Standards only if they are

designated for consolidation by order of the relevant authority under statutory instrument, which will reflect the ONS's classification of an entity to the central government sector.

- 4.3.4 In accordance with the principles set out in *Managing Public Money*, executive non-departmental and similar public bodies classified to central government by the ONS will normally be controlled for accountability purposes by only one department and the designation order will require that they are consolidated by the department.
- 4.3.5 Where a department has an investment in another public sector entity that has not been designated for consolidation it should be reported following the requirements of IFRS 9. This includes all interests in bodies classified as public corporations by the ONS and investments in public sector bodies which would otherwise meet the definition of an associate or joint venture.
- 4.3.6 For the purposes of applying the principles of consolidation, the department will be the parent entity in departmental consolidations. The financial statements of all entities whose results are to be consolidated will generally have the same accounting reference date. The relevant authority will consider the treatment of non-coterminous reference dates if cases arise.

4.4 Reporting requirements beyond central government

Scottish, Welsh, and Northern Irish spending bodies

- 4.4.1 The accounts to be published by spending bodies accountable to the Scottish Parliament will follow the format agreed between Scottish Ministers and the Public Audit Committee of the Scottish Parliament. The format of those accounts will be based on the principles, but not the detail, set out in this manual. This means the accounts of these bodies will meet disclosure requirements which originate in accounting standards or Companies Act application as set out in the FReM. These accounts will also meet relevant requirements in Scottish legislation and in the Scottish Public Finance Manual.
- 4.4.2 The Welsh Government determines the appropriate level of reporting for the performance report for each organisation in Wales, taking into account specific legislation in Wales.
- 4.4.3 The Northern Ireland Executive determines the appropriate level of reporting for the performance report for each organisation in Northern Ireland.

Executive agencies and trading funds

- 4.4.4 Trading funds are established under government trading legislation to engender a market based approach to managing activities. They might also be executive agencies or departments in their own right.
- 4.4.5 In preparing their financial statements, trading funds should follow the requirements of applicable accounting standards, but should also follow the principles set out in this Manual and provide the additional disclosures required by the Manual where these go beyond the requirements of the applicable accounting standards.
- 4.4.6 In the case of executive agencies and trading funds, laying an annual report and accounts will satisfy the requirement to produce a report, foreword and set of financial statements (as required by Cm 914 *The Financing and Accountability of Next Steps Agencies* (agencies), section 4(6A) (b) of the *Government Trading Funds Act 1973* (trading funds) and article 8(7) (b) of the *Financial Provisions (Northern Ireland) Order 1993*).

Other arm's length bodies

- 4.4.7 Within the context of this manual, arm's length bodies refers to non-departmental public bodies, trading funds, and other entities designated to the departmental group, excluding the core department and its agencies.
- 4.4.8 Arm's length bodies that are not incorporated as companies can use an annual report to meet a statutory obligation to prepare a separate report.

- 4.4.9 Where there is no statutory requirement for the preparation of a separate report, arm's length bodies will prepare an annual report and accounts.

Arm's length bodies which are companies

- 4.4.10 Arm's length bodies incorporated as companies should comply with the requirements of the Companies Act 2006 in full, going further if necessary to follow the guidance or principles set out in this Manual.
- 4.4.11 Sections 381 to 383 of the Companies Act 2006 define the qualifying criteria for the small companies' regime. Entities meeting these criteria can apply the small companies' regime only if approved by their relevant authority.
- 4.4.12 A reporting entity that wishes to publish a document additional to its annual report and accounts that contains supplementary material including summary financial statements should comply with the requirements of section 426 of the Companies Act 2006, as amended by SI1970 (2013). The summary data must not be published in advance of the full annual report and accounts being laid before parliament as to do so would be a breach of parliamentary privilege.
- 4.4.13 If, due to exceptional circumstances, there is a conflict between the requirements of the Companies Act and the FReM, the Companies Act take precedence for those arm's length bodies that are companies. Companies should discuss the situation in the first instance with their sponsoring department and relevant authority.

Arm's length bodies which are charities

- 4.4.14 Arm's length bodies which are charities should follow the requirements of the Charities' SORP and regulations made under Charities legislation. If they are both registered companies and charities, they must comply with the Companies Act 2006 and the Charities SORP. They should also go further if necessary to follow the guidance or principles set out in this Manual.
- 4.4.15 There is a strong presumption that compliance with the SORP is necessary for charities' accounts to give a true and fair view. Charities that are exempt from the requirements of the Charities Act should comply with the recommendations of the SORP wherever possible, unless they or their sponsor department feel that the resulting financial statements will not provide the information needed for monitoring purposes. Any departure from the SORP should be disclosed on a comply or explain basis.
- 4.4.16 Where a sponsoring department considers that the Statement of Financial Activities (SOFA) prepared by its charitable arm's length body does not provide sufficient information to monitor and control the arm's length body or to allow appropriate comparison with its non-charitable arm's length bodies, it may direct the charitable arm's length body to supplement the SOFA with a summarised income and expenditure account.

Reportable activities

- 4.4.17 Preparers of the financial statements of reportable activities should apply the guidance in this Manual only to the extent that it is relevant to those activities and in the light of any statutory requirements or other pronouncements made by the relevant authorities.

4.5 *Presentation to Parliament and publication*

- 4.5.1 HM Treasury will lay before the House of Commons the resource accounts of departments (including agencies that are whole departments) under section 6(4) of the Government Resources and Accounts Act 2000. They will then be published.
- 4.5.2 Agencies that are not whole departments will lay their annual reports and accounts before the House of Commons under section 7(3) (c) of the Government Resources and Accounts Act 2000. They will then be published.
- 4.5.3 The Auditor General for Wales will lay before the National Assembly for Wales the resource accounts of the Welsh Ministers (Welsh Government) under section 131(6) of the Government of Wales Act 2006. The Auditor General for Wales will lay the resource accounts of Estyn (Her Majesty's Chief Inspector of Schools in Wales) under Schedule 6 section 6(2)(b) of the Government of Wales Act 1998. They will then be published.
- 4.5.4 The Department of Finance and Personnel will lay before the Northern Ireland Assembly the resource accounts of Northern Ireland departments (including agencies which are whole departments) under section 10(4) of the Government Resources and Accounts Act (Northern Ireland) 2001. They will then be published.
- 4.5.5 In the case of Northern Ireland agencies which are not whole departments, the parent department will lay before the Northern Ireland Assembly the annual report and accounts of those agencies under section 11(3)(c) of the Government Resources and Accounts Act (Northern Ireland) 2001. They will then be published.
- 4.5.6 Scottish Ministers will lay before Parliament accounts prepared under the Public Finance and Accountability (Scotland) Act 2000 under section 22(5) of that Act. They will then be published.
- 4.5.7 The procedure for publishing and laying the accounts of ALBs varies according to the provisions of the governing statute. Where the legislation requires the accounts to be laid before Parliament or where accounts are placed in the library of the House of Commons (and perhaps also the House of Lords), the accounts should be published thereafter.
- 4.5.8 The procedure for publishing and laying the accounts of ALBs in Northern Ireland varies according to the provisions of the incorporating statute. If responsibility does not lie with the Comptroller and Auditor General, the ALB is normally required to submit the audited accounts to its sponsor department, who will arrange to lay them before the Northern Ireland Assembly. A copy should be placed in the library of the Northern Ireland Assembly.
- 4.5.9 The Comptroller and Auditor General will lay before Parliament the annual reports and accounts of trading funds under section 4(6) (b) of the Government Trading Funds Act 1973. Trading funds may then publish them.
- 4.5.10 The Comptroller and Auditor General will lay before the Northern Ireland Assembly the annual reports and accounts of trading funds in Northern Ireland under article 8(6)(b) of the Financial Provisions (Northern Ireland) Order 1993. The annual reports and accounts will then be published.

Chapter 5 – The performance report

5.1 *Purpose of the performance report*

5.1.1 The purpose of the performance report is to provide the user with a complete understanding of the entity and how it has performed. It is a vital resource for Parliament and the public, enabling them to hold the government to account, and it should draw together information from across the annual report and account to provide a holistic view of performance. Given its importance, preparers must dedicate sufficient time to its preparation and be mindful of applying the principles, best practice and guidance laid out below and in chapters 2 and 3.

5.1.2 The performance report should cover, but is not limited to:

- a) a description of the entity (and its group);
- b) how it is organised;
- c) what its aims are;
- d) how it has performed and met those aims; and
- e) any future plans or key risks the entity faces.

It should be straightforward and accessible, so that it can be easily understood by a lay user.

5.1.3 The performance report is required to have two sections; a 'performance overview' and a 'performance analysis'. The performance overview is a short summary of the full story of an organisation and its performance over the period covered by the report. The performance analysis provides a detailed view.

5.2 *Principles for the performance report*

5.2.1 When compiling the performance report, preparers should meet the objectives and principles of government reporting detailed in chapter 2. Specifically, performance reporting must be fair, balanced, and understandable. It must tell the full story of an organisation, including both positive and negative aspects, so users can have confidence in any judgements and so it is clear that reporting is trustworthy and transparent.

5.2.2 In addition, preparers should follow best practice in narrative reporting, as detailed in chapter 3. Graphical representation and visual aids should be used where possible to aid usability. For example, a Red/Amber/Green (RAG) rating may add clarity when reporting against indicators.

5.2.3 Further principles to follow when compiling the Performance Report are as follows:

- performance reporting should reflect the structure and activity of the organisation, and the information used by internal decision makers, broken down as appropriate by project, policy, and/or programme;
- preparers should include trend data to give context to statistics and other metrics, including explanations of the information provided; and
 - where practical, preparers should detail when information they present has been audited or not, cross referencing users to where audited information originates in the financial statements or SOPS.

5.2.4 Performance reporting requirements are based on best practice, specific public sector needs, and Strategic Report requirements as set out in the Companies Act 2006 (Chapter 4A of Part 15).

5.2.5 As noted in chapter 4, arm's length bodies which are companies or charities should follow the requirements of the Companies Act 2006, charity legislation or SORPs

respectively, providing additional disclosures as required by this Manual where these go beyond legislation or guidance.

Performance report accountability

- 5.2.6 Auditors will review the performance report for consistency with other information in the financial statements. Therefore, it is important the performance report reflects the position outlined by the financial statements.
- 5.2.7 The performance report shall be signed and dated by the Accounting Officer or chief executive.

5.3 Performance overview

5.3.1 The purpose of the performance overview is to give the user a short (no more than 10 to 15 pages) summary that provides them with sufficient information to understand the organisation, its purpose, its objectives, its performance and the impact and management of key risks. The performance overview should be enough for the lay user to have no need to look further into the rest of the annual report and accounts, unless they were interested in further detail or had specific accountability or decision making needs.

5.3.2 Entities have a degree of flexibility to tell the story of their performance in the manner that best suits the needs of the user. As a minimum, the performance overview must include:

- a short summary explaining the purpose of the overview section;
- a statement from the entity's lead Minister or Chief Executive providing their perspective on the performance of the organisation over the period;
- a statement of the purpose and activities of the organisation, including a brief description of the business model and environment;
- a brief description or diagram detailing organisational structure, if not already included as a result of the above requirements;
- a summary of single departmental plan objectives, or any other organisational goals where the entity does not have single departmental plan objectives;
- a summary performance appraisal, providing a synopsis of the performance analysis section and outlining whether a department is progressing towards its single departmental plan objectives, or any other organisational goals. This section should provide at least some key indicators for the objectives, sub-objectives or work areas identified in a department's single departmental plan. These should be drawn from official statistics or publicly available information and detail whether performance has met expectation, or explain the causes of performance that is below expectation; a summary of the principal risks faced and how these have affected the delivery of objectives. The descriptions of the principal risks should be sufficiently specific that the reader can understand why they are important;
- how these have been managed and how risks have changed through the period. Significant changes in principal risks, such as a change in the likelihood or possible impact or the inclusion of new risks, should be highlighted and explained. This section should reference users to the disclosures in the accountability section;
- how these principal and emerging risks could affect the entity in delivering its plans and performance in future years; and
- For arm's length bodies, an explanation of the adoption of the going concern basis where this might be called into doubt, for example where there are significant net liabilities, what will be financed from resources expected to be voted by Parliament in the future.

5.4 Performance analysis

- 5.4.1 The purpose of the performance analysis is for entities to provide a detailed view of their performance.
- 5.4.2 Entities should seek to tie in the performance analysis to other parts of the annual reports and accounts as relevant, for example to the Statement of Outturn against Parliamentary Supply (SOPS) and the financial statements, to provide a cohesive and consistent understanding of performance across the annual report and accounts.
- 5.4.3 The guidance on the performance analysis section is broken down as follows:
- a) mandatory requirements in 5.4.4;
 - b) comply or explain requirements in 5.4.5 (see Figure 3 in Chapter 3 on the contrast between mandatory and comply or explain requirements); and
 - c) best practice recommendations in 5.4.6.
- 5.4.4 It is mandatory to include in the performance analysis:

Reporting on single departmental plans (for those entities that have them):

- a) Single departmental plans form the departmental performance framework for this Parliament and set out all major departments' strategic objectives and the indicators through which performance will be measured. The performance report section of a department's annual report and accounts show how departments have performed against the strategic objectives set out in their single departmental plans, allowing Parliament and the public to track and monitor progress and performance against key indicators.
 - o Entities will report against their single departmental plan strategic objectives using indicators and in a manner that they consider would best contribute to the understanding of performance and value for money. This may include both quantitative and qualitative information. Where departments have decided no longer to report against a particular indicator as part of their single departmental plan, or to use new indicators, the reasons for this should be carefully explained.
 - o Departments should provide outturn data against each of the indicators in their single departmental plan, with prior year comparative data. Data for years earlier than the prior year should also be included where available and where this provides relevant context. Any financial information provided should link to the financial review (see below) and common core tables, as relevant.
 - o Entities should report against priority outcomes and metrics agreed at the latest spending review as part of the Public Value Framework. Metrics will track departmental performance against priority outcomes and will allow departments to identify, at an early stage, whether an outcome is at risk of not being achieved.
 - o Entities should also note the requirement to report on sustainable development goals in 5.4.9 below.
 - o Entities may wish to report on each single departmental plan objective in turn and find it easiest to structure their performance analysis around reporting against single departmental plan objectives.
- b) Details of any non-financial information on environmental protection, social responsibility, respect for human rights, anti-corruption and anti-bribery matters and diversity, specified by [EU law](#) and adapted by the FReM to apply to the UK public sector.

Reporting on objectives (for those that do not have single departmental plans):

- c) Entities without single departmental plans should agree an approach to reporting on performance with their sponsoring body and, if needed, their HM Treasury

Spending Team and relevant parliamentary select committee. Otherwise they should report on their objectives and progress made against them, using objective indicators of progress where these have been established. The discussion of progress against plan should incorporate qualitative and quantitative information and prior year and trend information where possible. It may be the case that preparers find it easiest to structure their performance analysis around reporting against objectives.

5.4.5 The performance analysis should include, on a comply or explain basis:

- a) A short explanation detailing the purpose of the performance analysis section and its structure.
- b) Further detail on the structure of the organisation, unless sufficient detail has already been provided in the performance overview section (5.3.2) or elsewhere in the annual report. Providing additional detail at this point may be beneficial for the larger or more complex departments, and could potentially refer users to the structural information provided in the accounting officer system statement.
- c) Further detail on the risk profile of the organisation, how risks have affected the organisation in achieving its objectives, how they have been mitigated and managed and how this may affect future plans and performance, to the extent that this has not been summarised in the performance overview or accountability report. There should also be information on how risks have changed over time and through the period. If this requirement is not followed, when explaining the reason for this, there should be a reference to where risk is instead discussed in the performance overview and accountability report.
- d) If unit costs are central to decision-making or accountability for the organisation, then they should be disclosed. This disclosure should include the basis for calculation, revealing any areas of subjective judgement. Where possible, the same basis for calculation should be used across different entities and reporting periods to support meaningful comparisons.
- e) Where statistics, metrics, or other indicators are disclosed without relevant trend data or comparators, the reason for the lack of trend data should be disclosed. For example, if an indicator reported in the first year that it has been collected, no prior period data is available.
- f) If not already covered through the above, entities should detail performance against any further key financial indicators or measures, tying this into the broader discussion.
- g) If not otherwise covered in a trend analysis included elsewhere, entities should provide further detail on future plans, and expected future performance. In particular, anticipated changes in the structure or strategic objectives of the organisation should be noted.
- d) A summary or reference to any accountability issues or breaches outlined in the accountability report, that may be worth drawing the attention of users to (this is not intended to duplicate disclosures).
- h) A financial review, detailing financial performance. Entities should attempt to tie in a discussion of financial performance into their overall performance where possible, detailing where the effective use or ineffective use of resources has contributed to meeting or failing to meet objectives. The following should be included:

For entities that produce a Statement of Outturn against Parliamentary Supply (SOPS), this financial review should include:

- o Context and an explanation of the public sector budgeting framework and the split of funds between resource, capital, AME and DEL. Diagrams may aid in providing this explanation, showing the flow of funds between different budget

categories. This context is required to enable users to understand the analysis of outturn vs Estimate, that should follow, and the SOPS. Key terms should also be defined. Refer to chapter 1 of the [Consolidated Budgeting Guidance](#) for an explanation of budgeting terms and 6.6.8 below.

- A summary table showing outturn compared to Estimate. This table should summarise outturn against Estimate, and is not intended to be a detailed duplication of the SOPS. A note should explain that the table ties directly to the SOPS as a key accountability statement, which is audited, providing the context that entities must operate within their control limits to avoid a qualification.
- Commentary on outturn against Estimate variances should be provided to help the user understand where there has been agreed or unexpected changes in spending, when compared to the Estimate, and how that has affected performance and why. Commentary should tie to figures disclosed in the SOPS. To provide a summary understanding of variances, preparers may need to tie back to variances presented in note 1 of the SOPS.
- A summary budget outturn to accounts reconciliation. In some instances, it will be difficult to provide this where the reconciliation is particularly complex, but preparers may still find it useful to briefly explain the link between outturn and the financial statements, with a reference to SOPS note 2.
- A trend analysis, showing RDEL, CDEL, RAME, CAME spend over the previous 5 years, with future projections based on spending review settlements (if future information is available). Supporting analysis should draw attention to patterns of spend over time, how this has impacted performance and how future projections of spend are likely to impact on future performance. A note should detail that the information in the trend analysis ties to common core tables, where further breakdowns are provided.

5.4.6 The following are best practice recommendations:

- a) Entities that do not prepare a SOPS may still wish to follow the guidance in 5.4.5 (h) above, and consider how they can apply it to their annual report for the benefit of the user.
 - Following this guidance will ensure all performance analyses will have a clear and consistent structure, detailing non-financial and financial information that summarises key sections of the annual reports and accounts and details progress against organisational goals.
 - While detail on the budgeting framework and outturn against estimate will not be as relevant for entities that do not prepare SOPS, they should still consider what information on net funding provided through the Estimate and how they have met this, or equivalent, would be useful.
- b) Further best practice forms of reporting to include in a financial review are:
 - an analysis of the balance sheet position year on year, detailing movements in asset or liability balances;
 - detail on the type of spend incurred over the year, for example, on employees, administration, equipment or buildings; and
 - detail on outturn against Estimate by single departmental plan objective or other goal, although it is recognised this reporting may be difficult to produce if objectives do not align to Estimate lines and if apportioning spend to objectives is highly judgemental.

Sustainability reporting

- 5.4.7 Reporting entities are expected to provide information on environmental matters including the impact of the entity's business on the environment. Entities must also

comply with mandatory sustainability reporting requirements. This information is published in the sustainability reporting guidance on gov.uk.

- 5.4.8 Departments are required to report against climate change adaption and rural proofing, and to report on the impact operations have on the environment as part of wider sustainability reporting. This includes how climate change adaptation and rural proofing:
- are embedded within overall governance, decision making and assurance processes;
 - feature in performance and project management, including the monitoring of impact assessments, and the effective use of sound evidence in policy making; and
 - whether these commitments feature in programme and project gateway reviews.
- 5.4.9 In relation to climate change adaptation and rural proofing, departments should also report on:
- where policy development has been challenged and informed where appropriate, through consultation and stakeholder engagement;
 - how the department supports staff learning and participation through performance management, learning modules, tools and guidance for policy makers, awareness campaigns, local champions, volunteering and membership of departmental, government, or external groups;
 - how the department has supported delivery; and
 - the forward looking commitments for improving performance
- 5.4.10 Entities falling within the scope of reporting under the Greening Government Commitments and which are not exempted by de minimis limits or other exemption under Greening Government (or other successor policy), shall report performance against sustainability targets, as set out in the sustainability reporting guidance. The sustainability reporting guidance sets out the minimum requirements and aligns with the requirements on the Greening Government Commitments. Departments will need to provide a description of progress in the financial year. Inclusion of reporting against the sustainability targets will fulfil the requirements regarding greenhouse emissions in Schedule 7 of SI 2013 No. 1970. It is envisaged that such reporting will be integrated throughout the annual report and accounts and not form a separate standalone report.
- 5.4.11 The Sustainable Development Goals (SDGs) are part of the 2030 Agenda, a package of goals aimed at securing an end to poverty and promoting peace and prosperity globally. The UK Government is delivering the SDGs via HMG's existing planning and performance frameworks, primarily single departmental plans. Departments are responsible for delivering the SDGs as relevant to the policy areas for which they are accountable. Within their single departmental plans, departments were asked to identify work areas that support the delivery of relevant Goals. There are 17 Goals, under which there are a series of 169 'targets'. Departments should clearly identify where their performance contributes towards delivery of relevant SDGs. This will help to demonstrate the government's contribution towards the SDGs, and facilitate the effective monitoring of planned activities highlighted in the single departmental plans.
- 5.4.12 Spending bodies accountable to the Northern Ireland Assembly will report on sustainability within the framework established by the Northern Ireland Executive's Programme for Government. Relevant guidance will be issued by the Department for Environment, Food and Rural Affairs.

- |
- 5.4.13 Spending bodies accountable to the Scottish Parliament will report on sustainability within the framework established by the Scottish Government and in accordance with guidance issued by the Scottish Government.
 - 5.4.14 Spending bodies accountable to the Welsh Government will prepare a sustainability report within the Management Commentary based upon targets outlined by the Welsh Government. The Welsh Government will issue relevant guidance.

consultation draft

Chapter 6 – the accountability report

6.1 *Purpose and scope of the accountability report*

- 6.1.1 The purpose of the accountability section of the annual report is to meet key accountability requirements to parliament, who are the primary user of the annual report and accounts.
- 6.1.2 The requirements of the accountability report are based on the matters required to be dealt with in a directors' report, as set out in Chapter 5 of Part 15 of the Companies Act 2006 and Schedule 7 of SI 2008 No 410, and in a Remuneration Report, as set out in Chapter 6 of the Companies Act 2006 and SI 2013 No. 1981.
- 6.1.3 The requirements of the Companies Act 2006 have been adapted for the public sector context and only need to be followed by entities which are not companies to the extent that they are incorporated into this Manual.
- 6.1.4 Central government departments are also required to follow annual guidance on reporting requirements promulgated by HM Treasury through PES papers.

6.2 *Auditors and the accountability report*

- 6.2.1 Auditors will review the accountability report for consistency with other information in the financial statements and will provide an opinion on the following disclosures which should clearly be identified as audited within the accountability report:
- For departments financed through the UK Government or Northern Ireland Assembly Estimates process, the Statement of Outturn against Parliamentary Supply and supporting notes, including any notes reported in an annex to the financial statements;
 - Regularity of expenditure;
 - Disclosures on parliamentary accountability;
 - Single total figure of remuneration for each minister and director;
 - Pension cash equivalent transfer value (CETV) disclosures for each minister and director;
 - Payments to past directors, if relevant;
 - Payments for loss of office, if relevant;
 - Fair pay disclosures;
 - Exit packages (if relevant); and
 - Analysis of staff numbers and costs.

- 6.2.2 The accountability report shall be signed and dated by the Accounting Officer or Chief Executive.

6.3 Structure of the accountability report

- 6.3.1 The accountability report is required to have three sections:
- a corporate governance report;
 - a remuneration and staff report; and
 - a parliamentary accountability and audit report.
- 6.3.2 Entities should provide a short overview of these sections and explain how they contribute to the entity's accountability to Parliament and best practice with corporate governance norms and codes.

6.4 Corporate governance report

- 6.4.1 The purpose of the corporate governance report is to explain the composition and organisation of the entity's governance structures and how they support the achievement of the entity's objectives.
- 6.4.2 As a minimum, the corporate governance report must include:
- The directors' report
 - The statement of Accounting Officer's responsibilities
 - The governance statement

The directors' report

- 6.4.3 The directors' report must include the following, unless disclosed elsewhere in the annual report and accounts, in which case a clear cross-reference should be provided:
- a) (departments) the ministerial titles and names of all ministers who had responsibility for the department during the year;
 - b) (departments) the name of the person occupying the position of the permanent head of the department;
 - c) (reporting entities other than departments) the names of the Chair and chief executive;
 - d) (all reporting entities) the composition of the management board (including advisory and non-executive members) having authority or responsibility for directing or controlling the major activities of the entity during the year. This means those who influence the decisions of the entity as a whole, rather than the decisions of individual directorates or sections with the reporting entity;
 - e) (all reporting entities) details of company directorships and other significant interests held by members of the management board which may conflict with their management responsibilities. Where a Register of Interests is available online, a web link may be provided instead of a detailed disclosure in the annual report;
 - f) (all reporting entities) information on personal data related incidents where these have been formally reported to the Information Commissioner's Office (ICO); and
 - g) (all reporting entities) other disclosures are promulgated by HM Treasury through PES papers.

For the remainder of the Manual, individuals described in bullets b) to d) above are referred to as directors.

Statement of Accounting Officer's responsibilities

- 6.4.4 The Statement of Accounting Officer's responsibilities is required to explain the responsibilities of the Accounting Officer or chief executive of each reporting entity and reportable activity covered by the requirements of this Manual for preparing the financial statements. Model examples of Statements of Accounting Officer's responsibilities are provided in Annex 2.
- 6.4.5 The Accounting Officer is required to confirm that, as far as he or she is aware, there is no relevant audit information of which the entity's auditors are unaware, and the Accounting Officer has taken all the steps that he or she ought to have taken to make himself or herself aware of any relevant audit information and to establish that the entity's auditors are aware of that information.
- 6.4.6 The Accounting Officer is required to confirm that the annual report and accounts as a whole is fair, balanced and understandable and that he or she takes personal responsibility for the annual report and accounts and the judgments required for determining that it is fair, balanced and understandable.

Governance statement

- 6.4.7 All reporting entities covered by the requirements of this Manual shall report on the review of the risk management and internal control system and the main features of the company's risk management and internal control system in preparing a governance statement. There is no set template for the governance statement, and guidance on content is provided for specific sectors and jurisdictions governed by the Relevant Authorities in:
- o HM Treasury – Managing Public Money (including Annex 3.1)
 - o Scottish Public Finance Manual
 - o Managing Public Money Northern Ireland
 - o The Annual Governance Statement
 - o Rough Guide for Practitioners (CIPFA Finance Advisory Network)
 - o Annual guidance issued by the Department of Health and Social Care and NHS Improvement
- 6.4.8 At a minimum, the statement should acknowledge and explain:
- o responsibilities for risk management and internal control systems and for reviewing their effectiveness;
 - o the on-going process for identifying, evaluating and managing the principal and emerging risks faced;
 - o that the systems have been in place for the year under review and up to the date of approval of the annual report and accounts;
 - o the main features that support regular monitoring, review and assurance;
 - o the process applied in reviewing the effectiveness of the system of risk management and internal control, including explaining what actions have been or are being taken to remedy any significant failings or weaknesses. Where this information has been disclosed elsewhere in the annual report and accounts, a cross-reference to where that information can be found will suffice; and
 - o the extent to which arrangements comply with requirements for specific sectors and jurisdictions governed by the Relevant Authorities, such as the central government Corporate Governance Code and the Orange Book, with explanations of any departures.
- 6.4.9 As well as these requirements, the governance statement should assess how assurance is gained by the Board and Accounting Officer of an entity. Entities should also make clear

links and cross-reference to the Accounting Officer System Statement where they have one, including narrative explanation where appropriate.

- 6.4.10 Where a reporting entity includes in its published annual report and accounts financial statements relating to several reportable activities, the reporting entity need include only a single governance statement.
- 6.4.11 Where the financial statements in respect of a reportable activity are published separately from the accounts of the reporting entity, accounts preparers should prepare a governance statement in respect of the reportable activity.

6.5 Remuneration and staff report

- 6.5.1 The remuneration and staff report sets out the entity's remuneration policy for directors, reports on how that policy has been implemented and sets out the amounts awarded to directors and where relevant the link between performance and remuneration.
- 6.5.2 In addition, the report provides details on remuneration and staff that Parliament and other users see as key to accountability.
- 6.5.3 There is a presumption that information about named individuals will be given in all circumstances and all disclosures in the remuneration report will be consistent with identifiable information of those individuals in the financial statements. However, individuals must be advised in advance of the intention to disclose information about them, with an invitation for sight of the intended information to be published and notification that the individual can object under Article 21 of the General Data Protection Regulation (GDPR).
- 6.5.4 If a member does not agree to disclosure, the entity must consider whether to accept it. Under such circumstances the GDPR requires the entity to demonstrate compelling legitimate grounds for the disclosure which override the interests, rights and freedoms of the member or for the establishment, exercise or defence of legal claims. Entities are strongly advised to take legal advice in such a case, because a decision not to publish may be challenged under the Freedom of Information Act.
- 6.5.5 The remuneration and staff report are fundamental to demonstrating transparency and accountability to Parliament and the public and therefore disclosure is expected in all but exceptional cases. Where non-disclosure is agreed, the fact that certain disclosure has been omitted should be disclosed.
- 6.5.6 UK Central government departments are also required to follow guidance contained in the annual Employer Pension Notice issued by the Cabinet Office.

Remuneration policy

- 6.5.7 Entities must disclose their policy on the remuneration of ministers and directors for the current and future years. In most cases it will be sufficient to refer to the work and recommendations of the Senior Salaries Review Body.

Single total figure of remuneration for each minister and director

- 6.5.8 Entities must disclose each component and the overall single total remuneration figure for each minister and director in the format proposed by the Cabinet Office and using the methodology defined by the Cabinet Office, in the Employer Pension Notice. The components of the single total remuneration figure are:
 - a) Salary and allowances – should be disclosed in bands of £5,000 for officials and actual amounts for ministers. Salary and allowances covers both pensionable and non-pensionable amounts and includes, but may not necessarily be confined to: gross salaries; overtime; reserved rights to London Weighting or London allowances, recruitment and retention allowances; private-office allowances or other allowances to the extent that they are subject to UK taxation and any

severance or ex-gratia payments. It does not include amounts which are a reimbursement of expenses directly incurred in the performance of an individual's duties. For ministers, only the salary payable in respect of their role as minister of the department should be shown;

- b) Performance pay or bonuses payable – should be separately reported from salaries, in bands of £5,000.
- c) Non-cash benefits – the estimated value of non-cash benefits (benefits in kind) should be disclosed to the nearest £100;
- d) Accrued pension benefits – the value of pension benefits accrued during the year is calculated as (the real increase in pension multiplied by 20) plus (the real increase in any lump sum) less (the contributions made by the individual). The real increases exclude increases due to inflation or any increase or decreases due to a transfer of pension rights.

Pension entitlements for each minister and director

6.5.9 Entities must disclose the pension entitlements for each minister and director in the format proposed by the Cabinet Office, in the Employer Pension Notice. This must include:

- the real increase during the reporting year in the pension and (if applicable) related lump sum at pension age (ministers age 65) in bands of £2,500;
- the value at the end of the reporting year of the accrued pension and (if applicable) related lump sum at pension age (ministers, age 65) in bands of £5,000;
- the value of the cash equivalent transfer value at the beginning of the reporting year to the nearest £1,000;
- the real increase in the cash equivalent transfer value during the reporting year, to the nearest £1,000;
- the value of the cash equivalent transfer value at the end of the reporting year to the nearest £1,000; and
- in the case of a partnership pension account, the employer's contribution (in these circumstances, the disclosures in the bullets above will not apply).

Compensation on early retirement or for loss of office

6.5.10 If a payment for compensation on early retirement or for loss of office (paid or receivable) has been made under the terms of legislation or an approved Compensation Scheme, the fact that such a payment has been made should be disclosed, including a description of the compensation payment and details of the total amounts paid (the cost to be used must include any top-up to compensation provided by the employer to buy out the actuarial reduction on an individual's pension). This should include severance payments made to ministers on loss of office. Ministerial severance should be stated by minister and include actual and receivable payments.

Payments to past directors

6.5.11 Entities must provide details of any payments made to any person (minister or officials) who:

- was not a director at the time the payment was made, *but*
- who had been a director of the entity previously, *unless*
- the payment details are already disclosed within a previous directors' remuneration report, the current year single total remuneration disclosure, or within the disclosure of compensation for early retirement or loss of office.

6.5.12 Only payments of regular pension benefits which commenced in previous years and payments in respect of employment for the entity other than as a director may be excluded.

Fair pay disclosure

6.5.13 Entities must disclose the following information together with prior year comparatives:

- The median remuneration of the reporting entity's staff. This is based on annualised, full-time equivalent remuneration of all staff (including temporary and agency staff) as at the reporting date;
- The range of staff remuneration;
- The ratio between the median staff remuneration and the mid-point of the banded remuneration of the highest paid director; and
- An explanation of any significant changes in the ratio between the current and prior year.

6.5.14 For departments, the calculation should exclude arm's length bodies within the consolidation boundary.

6.5.15 Further guidance can be found in Annex 5.

Staff report

6.5.16 The staff report must include the following information for all entities:

- a) Number of senior civil service staff (or equivalent) by band;
- b) Staff numbers and costs – entities should provide an analysis of staff costs and numbers distinguishing between:
 - Staff with a permanent (UK) employment contract with the entity;
 - Other staff engaged on the objectives of the entity (for example, short term contract staff, agency/temporary staff, locally engaged staff overseas and inward secondments where the entity is paying the whole or the majority of their costs). Where the number of staff under any one category of 'other staff' is significant, that category should be separately disclosed;
 - Ministers; and
 - Special advisers.
- c) Staff composition – Entities should provide an analysis of the number of persons of each sex who were directors, senior civil servants (or equivalent) and employees of the company;
- d) Sickness absence data;
- e) Staff turnover as per Cabinet Office guidance.

- f) For those entities who contribute to it, staff engagement scores from the latest Civil Service People Survey⁴.
- g) Staff policies applied during the financial year:
- For giving full and fair consideration to applications for employment by the company made by disabled persons, having regard to their particular aptitudes and abilities;
 - For continuing the employment of, and for arranging appropriate training for, employees of the company who have become disabled persons during the period when they were employed by the company;
 - Otherwise for the training, career development and promotion of disabled persons employed by the company;
- h) For those entities that are in scope (i.e. most public authorities), statutory disclosures are required under Statutory Instrument 328: The Trade Union (Facility Time Publication Requirements) Regulations 2017. This could be a full disclosure or, if preferred, a reference supported by the inclusion of the pro forma disclosure as an annex elsewhere in the accounts. Further guidance is available from the Cabinet Office at <https://www.gov.uk/government/publications/trade-union-facility-time-publication-requirements>. HM Treasury have also published *Additional FAQs for ARAs on the application of the Trade Union Regulations 2017* which can be found on OneFinance.
- i) Other employee matters – such as, other diversity issues and equal treatment in employment and occupation; employment issues including employee consultation and/or participation; health and safety at work; trade union relationships; and human capital management such as career management and employability, pay policy etc.;
- j) Expenditure on consultancy;
- k) Off-payroll engagements – summary data on the use of off-payroll arrangements to meet requirements promulgated by HM Treasury in PES guidance; and
- l) Exit packages – summary data on the use of exit packages agreed in year in the format proposed by the Cabinet Office.

Parliamentary accountability and audit report

6.5.17 The parliamentary accountability and audit report brings together the key parliamentary accountability documents within the annual report and accounts. It comprises:

- a) (departments financed through the Westminster or Northern Ireland Assembly Estimates process) Statement of Parliamentary Supply and supporting notes;
- b) (all entities) regularity of expenditure;
- c) (all entities) further parliamentary accountability disclosures;
- d) (all entities) the Certificate and Report of the Comptroller and Auditor General to the House of Commons.

6.5.18 The requirements for (a) to (c) and further detail on (d) are detailed below:

6.6 *Supply and the Statement of Outturn against Parliamentary Supply (SOPS)*

6.6.1 This section applies only to departments financed through the UK Government or Northern Ireland Assembly Estimates process. It provides guidance on how departments should

⁴ <https://www.gov.uk/government/collections/civil-service-people-survey-hub>

account for Supply and how outturn against Estimates should be disclosed in the SOPS and supporting notes.

- 6.6.2 The Scottish Parliament and the National Assembly for Wales have their own financing arrangements and their own forms of parliamentary accountability.
- 6.6.3 Supply is the monetary provision (for resource and capital purposes) and cash (drawn primarily from the Consolidated Fund) that Parliament gives statutory authority for entities to utilise. Supply is voted on an annual basis in Estimates and in the Appropriation Acts (Budget Act in Northern Ireland).
- 6.6.4 Information on the general principles relating to Supply and to parliamentary control over income and expenditure are set out in the introductory sections to the Main Supply Estimates, in [Managing Public Money \(HM Treasury\)](#) and in [Managing Public Money Northern Ireland](#) (the Department of Finance and Personnel Northern Ireland). Further guidance on the day-to-day management of the Consolidated Fund and the links with departments is available from HM Treasury's Exchequer Funds and Accounts team. Further information on the Fiscal Framework, the public spending framework and the Public Expenditure Statistical Analyses is available on the gov.uk website.

The Statement of Outturn against Parliamentary Supply

- 6.6.5 The Statement of Outturn against Parliamentary Supply (SOPS) is unique to the public sector and shows the year end outturn against the supply voted earlier in the year by Parliament. It is a key accountability statement, showing whether entities have operated within the limits (also termed control totals) which Parliament has provided statutory approval for. If an entity's outturn exceeds its Estimate, it has incurred spend without parliamentary approval and the accounts will receive a qualified audit opinion.
- 6.6.6 The Estimates and SOPS are compiled on a different basis to the financial statements, using the budgeting rules detailed in the Consolidated Budgeting Guidance (CBG). These rules are similar to, but differ from IFRS, as budget data feeds the National Accounts, which are compiled using the European System of Accounts (ESA) rules. This means the outturn in the SOPS does not reconcile exactly to the disclosures in the financial statements. Further information on the alignment between financial statements, Estimates and National Accounts is provided in Chapter 1 of the CBG.
- 6.6.7 In addition to the requirements and options listed further below, following this guidance and the illustrative disclosures (in Annex 1) should work as follows:
 - a) SOPS disclosures must be compiled using the structure detailed in 6.6.10 – 6.6.15 below, presenting the summary tables and notes as stipulated.
 - b) SOPS disclosures must follow the form of the illustrative disclosures, in Annex 1 as a *comply* or *explain* requirement. Form in this instance refers to the columns, rows and totals provided in the illustrative disclosures. Some flexibility is, therefore, allowed for preparers to adjust their SOPS disclosures where this aids usability. An exemption from providing explanation is allowed where removing rows or columns that are empty.
 - c) The formatting of SOPS disclosures, can be adjusted as preparers see fit, although the illustrative disclosures do provide best practice formatting. Formatting, for example, includes highlighting, colouring, font, spacing or sizing.
- 6.6.8 Further requirements for SOPS reporting are as follows:
 - a) Supporting text, as detailed in the illustrative disclosures, must be included, to establish what the SOPS are and how they can be understood
 - b) Where the budgeting framework has not already been explained as part of the financial review in the performance report (see 5.4.5), an explanation of the budgeting framework must instead be included in the SOPS; for example, through a flow of funds diagram. How this is done is left to the discretion of the preparer, but should

at least define key terms. This can be provided either in the performance report, the SOPS or in a glossary. Refer to chapter 1 in the Consolidated Budgeting Guidance for an explanation of these terms and 6.6.18 – 6.6.20 below.

- c) Unless commentary is already provided as part of the financial review in the Performance Report (see 5.4.5), commentary on variances between outturn and Estimate should be provided in the SOPS. Commentary on outturn against Estimate variances may be provided for either or both the summary table or SOPS note 1, depending on what is worthwhile for users.

Commentary must be written with the user in mind, to help them understand where there has been agreed or unexpected changes in spending, when compared to the Estimate, and how that has affected performance and why. Again, preparers should consider best practice in reporting (chapter 2) when providing commentary on variances, and should attempt to link information across the different parts of the annual reports and accounts.

- d) All figures must be presented in £000's.

6.6.9 The following are further optional aspects of SOPS reporting:

- a) Preparers may find it useful to provide further context over and above the minimum requirements detailed above.
- b) Preparers should ensure the SOPS links users to that other sections of the annual report (and visa versa) where relevant; for example, to the financial review in the Performance Report. Preparers should ensure that all elements of their annual reports and accounts tell a cohesive and coherent story.

The Statement of Outturn against Parliamentary Supply summary tables

6.6.10 The SOPS reports the following to Parliament (as noted above, refer to the illustrative disclosures for detail):

- a) the summary of outturn, which follows the format of Part 1 of the Estimate. This includes 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 report this by voted and non-voted (e.g. Consolidated Fund standing services);
- b) 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; and
- c) 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.

The Notes to the Statement of Outturn against Parliamentary Supply

6.6.11 For UK Government departments the following information must be given in the supporting notes.

Notes 1: Analysis of net outturn by section

6.6.12 This note follows the format of *Part II: Subhead detail* in the Estimate. The first part analyses net resource outturn by section and between administration costs, programme costs and income and compares the net total outturn for each section with the Estimate. The second part analyses net capital outturn by section and between gross expenditure and income and compares the net total outturn for each section with the Estimate.

Note 2: Reconciliation of resource outturn to net operating expenditure

6.6.13 This note reconciles the net resource outturn (from Note 1) to the net operating expenditure shown in the Statement of Comprehensive Net Expenditure, and follows the format of *Part II: Resource to cash reconciliation* in the Estimate. All reconciling items must be briefly explained. Reconciling items, other than capital grants to external bodies (treated as resource expenditure in the Statement of Comprehensive Net Expenditure but as capital in budgets) and differences related to differing treatments of PPP expenditure will be rare, but might include prior period adjustments relating to errors or accounting policy changes at the instigation of the department itself, and occasional non-budget income or expenditure.

Note 3: Reconciliation of Net Resources to Net Cash Requirement

6.6.14 This note reconciles the net resource outturn to the net cash requirement, and follows the format of *Part III: Note A* in the Estimate. It should briefly state the reasons for any variances between the Estimate and outturn. This note may be published a note to the Statement of Parliamentary Supply or within an annex to the annual report and accounts.

Note 4: Analysis of income due to the Consolidated Fund

6.6.15 The note is divided into note 4.1 and note 4.2:

- a) Note 4.1 is required where a department has retained excess cash that is due to be payable to the consolidated fund as at year end. The disclosure splits the total payable to the Consolidated Fund by a) income received that is outside the ambit of the Estimate or income received that entity cannot retain as it outside their settlement limit and b) excess cash provided by the Consolidated Fund that has not been spent and which must be returned to the Consolidated Fund. The explanatory note, that details why some income is included within the voted Estimate (covered in the earlier notes) and some income is excluded from the voted Estimate, must be included. The disclosure is provided on an accruals and a cash basis, to show the difference between what is payable at year end and the cash held in respect of that payable.
- b) Note 4.2 is required where an entity collects income on behalf of the Consolidated Fund as an agent and does not prepare a Trust Statement (for example if the amounts are immaterial). Where this disclosure is provided, the explanatory text provided in the illustrative disclosures must be included.

Northern Ireland departments

6.6.16 The Statement of Assembly Supply for Northern Ireland departments is based on similar principles, excepting that the summary of resource outturn reports a comparison of outturn against the Supply Estimate voted in respect of each budget boundary showing gross resource expenditure, accruing resources (income) and net resource expenditure. The Statement also includes a summary of income (other than accruing resources) that is payable to the Consolidated Fund.

6.6.17 The supporting notes for Northern Ireland departments are based on similar principles excepting that the net capital outturn of Note 1 is omitted, Notes 2 and 4 may include more non-Supply items and amounts payable to the Consolidated Fund relating to excess accruing resources, and a Note 5 may be required reconciling income recorded within the Statement of Comprehensive Net Expenditure to operating income payable to the Consolidated Fund.

Clarity on Key Terms

Preparers may find the following definitions useful. Further detail and an explanation of other budgeting terms can be found in the Consolidated Budgeting Guidance and Supply Estimates Manual.

6.6.18 Voted – Voted funds are funds that are voted on as part of the Supply Estimate. This is better understood against the context of non-voted.

- 6.6.19 Non-voted – Non-voted refers to funds that are not voted on by Parliament, but which an entity has approval to utilise. Non-voted generally refers to certain standing types of spend that don't require annual approval; for example, Consolidated Fund Standing Services or National Insurance Fund payments.
- 6.6.20 Income kept, income returned to Consolidated Fund and negative RDEL – While a definition of these terms may not be relevant for users, it may be worthwhile for preparers to note the different forms of income, primarily by three categories: i) negative RDEL (which only relates to the net book asset return on the disposal of any asset) that should be netted off against expenditure in the Estimate, ii) income that can be used in the Estimate (based on the ambit and settlement limits) that is shown as gross in the income column in the Estimate and iii) income that must be returned to the Consolidated Fund and which cannot be used by the entity, as detailed in SOPS note 4. Please note ALBs are shown net in the Estimates (i.e. income is shown net of spend, in the expenditure columns).

6.7 Other notes relating to Parliamentary accountability

- 6.7.1 Entities covered by Managing Public Money or Managing Public Money Northern Ireland are also required to include the following disclosures related to parliamentary accountability:
- a) (departments only) the names of any public sector bodies outside the boundary for which the department had lead policy responsibility in the year, together with a description of their status (for example, trading fund or public corporation);
 - b) a brief description of the nature of each of the entity's material remote contingent liabilities (that is, those that are disclosed under parliamentary reporting requirements and not under IAS 37) and, where practical, an estimate of its financial effect. Further guidance on managing contingent liabilities can be found in Annex 5.4 of *Managing Public Money*, and in the supplementary *Contingent liability approval framework* published by the Cabinet Office at <https://www.gov.uk/government/publications/contingent-liability-approval-framework>.
 - c) (Public Sector Information Holders only) a statement is required if the entity has not complied with the cost allocation and charging requirements set out in HM Treasury guidance;
 - d) a statement of losses and special payments where the total amounts incurred are over the limits proscribed in Managing Public Money or Managing Public Money Northern Ireland. In the case of reporting on special payments which are severance payments, the detail to be disclosed should include the number of special severance payments made, the total amount paid out, and the maximum (highest), minimum (lowest) and median values of payments made. Where an entity's reporting of special severance payments does not include some or all of these details in circumstances in which doing so would conflict with a legal obligation arising as a result of the Data Protection Act 2018, or otherwise, this fact should also be disclosed;
 - e) notation of gifts made over the limits proscribed in Managing Public Money or Managing Public Money Northern Ireland; and
 - f) entities should provide an analysis of fees and charges income where material. The analysis should include the following information for each service:
 - the financial objective(s) and performance against the financial objective(s);
 - the full cost and unit costs charged in year;
 - the total income received in year;
 - the nature/extent of any subsidies or overcharging.

- 6.7.2 Departments should note these disclosures will be subject to an audit opinion as described in 6.2.

6.8 *The Certificate and Report of the Comptroller and Auditor General to the House of Commons*

- 6.8.1 All entities are required to have their financial statements audited by the auditor named in the relevant legislation or other legislation or governing statute. The general presumption is that the auditor will be the Comptroller and Auditor General, the Auditor General for Wales, the Auditor General for Scotland or the Comptroller and Auditor General for Northern Ireland.
- 6.8.2 Entities should refer to the guidance on the handling of public funds and to the individual websites of the audit offices for information about the role of the auditor.
- 6.8.3 Auditors shall apply International Standard on Auditing (UK and Ireland) 700 and other relevant guidance in carrying out their audits and in arriving at the form and content of their opinion. The precise form of the audit opinion will depend on the results of the audit and is the responsibility of the auditor.
- 6.8.4 Where the relevant legislation requires the auditor to report on the examination of the financial statements, the auditor will provide such a report. The form and content of the report is the responsibility of the auditor. Where the auditor has no substantive comment to make, the report will generally be in the form of a single sentence appended to the audit opinion in the form: 'I have no observations to make on these financial statements'. Where there is a substantive report, it will be referred to in the audit opinion, but will be separate from it.
- 6.8.5 The Companies Act 2006 s.479A was amended with effect from 1 October 2012 to include conditions for exemption from audit for subsidiary companies within a group⁵. Subsidiary companies limited by guarantee would normally be subject to audit by the Comptroller and Auditor General, Auditor General for Wales, the Auditor General for Scotland or the Comptroller and Auditor General for Northern Ireland and therefore not eligible for exemption. If an entity wishes to use the exemption for a subsidiary company limited by shares, this must be approved by the relevant authority (through sponsoring bodies where appropriate) who will assess whether the exemption is appropriate for the particular circumstance.

⁵ Statutory instrument 2012/2301 *The Companies and Limited Liability Partnerships (Accounts and Audit Exemptions and Change of Accounting framework) Regulations 2012* available on the legislation.gov.uk website

Chapter 7 – The financial statements

7.1 Introduction

7.1.1 This section provides guidance to reporting entities on the format and content of:

- the (Consolidated) Statement of Comprehensive Net Expenditure,
- the (Consolidated) Statement of Financial Position,
- the (Consolidated) Statement of Changes in Taxpayers' Equity; and
- the (Consolidated) Statement of Cash Flows; together with
- the relevant notes.

7.1.2 The following paragraphs make it clear how different types of reporting entity should present financial statements. The detailed requirements for the format and content of the financial statements of reportable activities are set out in the accounts directions for those activities.

7.1.3 This section sets requirements based on the Companies Act 2006 and details adaptations and interpretations of the following accounting standards that provide guidance on the formats of, and disclosures in, financial statements:

- IAS 1 *Presentation of Financial Statements*;
- IAS 7 *Statement of Cash Flows*;
- IAS 10 *Events after the Reporting Period*;
- IAS 24 *Related Party Disclosures*; and
- IFRS 8 *Operating Segments*.

7.1.4 Other accounting standards, which are dealt with in other chapters of this Manual, might include disclosure requirements. Unless indicated otherwise, those disclosure requirements apply in full.

7.1.5 All reporting entities shall prepare individual or group accounts as appropriate using IAS 1. Where departments prepare group accounts IAS 1 is interpreted to require that the financial statements provide two columns, one showing the core department plus agencies and the other showing the group.

7.1.6 IAS 1 provides guidance on the comparative information to be disclosed in the financial statements. These requirements should be applied in full except that reporting entities should note that a decision on whether to include corresponding amounts in disclosures specific to government departments and agencies (for example, in relation to information on the Statement of Parliamentary Supply) will be taken on a case-by-case basis.

7.2 *Statement of Comprehensive Net Expenditure*

7.2.1 IAS 1 requires entities to prepare a Statement of Comprehensive Income. This Manual adapts IAS 1 as set out below.

7.2.1 Departments preparing annual accounts and executive agencies preparing financial statements under the Government Resources and Accounts Act 2000 or under the Government Resources and Accounts Act (Northern Ireland) 2001 shall prepare a Statement of Comprehensive Net Expenditure. Row headings should be based on the department's material sources of income and expenditure. Where a department or agency considers that an alternative format is required to improve the understanding of the body's

financial performance, they should seek the approval of the relevant authority, with agencies seeking approval through the sponsoring department.

- 7.2.2 In applying IAS 1 where this Manual refers to the Statement of Comprehensive Net Expenditure or Statement of Comprehensive Income, ALBs should interpret this terminology as appropriate for their own circumstances.
- 7.2.3 ALBs which are trading funds should prepare a Statement of Comprehensive Income.
- 7.2.4 ALBs which are companies may make use of the exemption available under section 408 of Chapter 4 of Part 15 of the Companies Act to omit the company's individual profit and loss account and only report the group profit and loss account if the conditions in section 408 are met.

7.3 Statement of Financial Position

- 7.3.1 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.
- 7.3.1 The Statement of Financial Position must be signed by the Accounting Officer or, where relevant, Chief Executive.

7.4 Statement of Cash Flows

- 7.4.1 IAS 7 sets out the requirements for the format of the Statement of Cash Flows. 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.
- 7.4.1 In reconciling the operating expenditure 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, leases and PFI contracts);
- 7.4.2 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.
- 7.4.3 In analysing financing, entities should adjust for debtors and creditors relating to the capital expenditure in respect of leases and on-balance sheet PFI contracts.

7.5 Statement of Changes in Equity

- 7.5.1 IAS 1 requires entities to prepare a Statement of Changes in Equity. IAS 1 is interpreted for the public sector context such that all reporting entities are required to present a Statement of Changes in Taxpayer's Equity following the format in IAS 1. Entities funded from Supply or grant-in-aid will need to adapt the format to disclose transactions with the General Fund.
- 7.5.1 The General Fund represents the total assets less liabilities of a department or agency, to the extent that the total is not represented by other reserves and financing items. Supply financing is credited to the General Fund, as is financing from the National Insurance Fund (relating to benefits expenditure) and from the Contingencies Fund. An amount equal to any expenditure on standing services is credited to the General Fund.
- 7.5.2 Where expenditure is funded directly by the Consolidated Fund, a department should account for the transaction in its Statement of Comprehensive Net Expenditure if it satisfies both of the following criteria:
 - a) the entity has the ability to deploy the economic resources involved; and

- b) the entity has the ability to benefit (or to suffer) from the deployment of those resources.
- 7.5.3 The financing of public sector entities is ultimately tax-based and an IAS 1-based notion of capital does not apply to many of them. Capital disclosures should be given only with the agreement of the relevant authority (through the parent or sponsoring department where appropriate).

7.6 Notes to the accounts

- 7.6.1 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.
- 7.6.2 Notes should only be included where additional information is material, i.e. where its omission or misstatement could influence the decisions of users taken on the basis of the financial statements.
- 7.6.3 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.
- 7.6.4 HM Treasury does not require departments to produce notes where the information is immaterial to the user and this manual clearly notes that disclosures should be limited to those necessary for an understanding of the entity's circumstances.
- 7.6.5 Entities should refer to the disclosure requirements in the International Financial Reporting Standards unless adaptations and interpretations are detailed below or where additional disclosures are necessary to meet parliamentary accountability requirements for those entities covered by Managing Public Money or Managing Public Money Northern Ireland.

Accounting policies

- 7.6.6 The notes to the accounts must include a statement that the accounts have been prepared in accordance with International Financial Reporting Standards as adapted and interpreted by this Manual.
- 7.6.7 Executive agencies that are not whole departments and ALBs must also include a note that the accounts have been prepared under a direction issued by [relevant authority] under [reference to appropriate legislation].
- 7.6.8 Significant accounting policies should be disclosed particularly in the event of a change in policy or in relation to a material item. The accounting policy for a particular item within the financial statements may be disclosed within the note for that item.
- 7.6.9 Where an entity considers that additional information on accounting policies is necessary to assist users then this should be included in the accounting policies note or next to an individual disclosure note.

Operating Segments

- 7.6.10 IFRS 8 applies in full to all entities within scope of this Manual. Entities should provide an analysis of their operating segments, products and services, the geographical areas in which they operate, and their major customers in accordance with the requirements of IFRS 8.

Expenditure

- 7.6.11 Entities should provide an analysis of expenditure as recorded in the Statement of Comprehensive Net Expenditure in separate notes to the financial statements. This should include service charges under PFI contracts, the individual components of non-cash items, and an analysis of other significant expenditure items. A brief summary of staff costs

should also be included with a reference to more detailed disclosures (per 6.2.25b) in the Accountability Report.

Cash and cash equivalents

7.6.12 Entities shall disclose the opening position, the net change in balances and the closing position separately for cash and cash equivalents. Where applicable, the closing position should be further analysed between balances held with the Government Banking Service (GBS)⁶ and balances held in commercial banks.

Financial instruments

7.6.13 Where the entity is exposed to material financial instrument risk the relevant IFRS 7 disclosures should be made. Particular emphasis should be placed on considering appropriate disclosure requirements relating to significant credit risk from receivables.

Commitments under PFI contracts

7.6.14 For 'off-balance sheet' service concessions entities should disclose the total payments to which they are committed distinguishing between those that are due to be made within one year, between one and five years, and later than five years.

7.6.15 For 'on-balance sheet' service concession arrangements the relevant IFRS 16 and SIC 29 disclosures should be made. In addition, entities should ensure they disclose the total commitments due within one year, between one and five years, and later than five years.

Information about related undertakings

7.6.16 If not disclosed elsewhere in the annual report and accounts, entities shall disclose the name of each of its subsidiaries, or provide a web link to where this information is available. If the entity has significant holdings⁷ in undertakings other than subsidiary undertakings, then the following must be disclosed:

- The name of the undertaking;
- If the undertaking is incorporated outside the UK, the country in which it is incorporated, or, if it is unincorporated, the address of its principal place of business;
- The identify of each class of shares in the undertaking held by the company and the proportion of the nominal value of the shares of that class represented by those shares; and
- If the entity holds more than 50% of the nominal value of the shares in the undertaking, the aggregate amount of the capital and reserves of the undertaking as at the end of its financial year and its profit or loss for that year, if material.

Third party assets

7.6.17 These are assets for which an entity acts as custodian or trustee but in which neither the entity nor government more generally has a direct beneficial interest. Third party assets are not public assets, and should not be recorded in the primary financial statements. Material third party assets should be disclosed. Where significant the note should differentiate between:

- a) third party monies and listed securities: the minimum level of numerical disclosure required is a statement of closing balances at financial year-end. For listed securities, this will be the total market value. Optionally, when considered significant by the

⁶ Where GBS is using Citi, Barclays and Royal Bank of Scotland Group to provide the banking services, funds held in these accounts should not be classed as commercial bank balances.

⁷ A holding is significant for this purpose if it amounts to 20% or more of the nominal value of any class of shares in the undertaking or the amount of the holding exceeds one-fifth of the amount of the company's assets.

|
entity and at its discretion, further disclosures may be made, including gross inflows and outflows in the year and the number and types of securities held;

- b) third party physical assets and unlisted securities: disclosure may be by way of narrative note. For physical assets, the note should provide information on the asset categories involved. Such disclosure should be sufficient to give users of the financial statements an understanding of the extent to which third-party physical assets and unlisted securities are held by the entity; and
- c) In the event that third party monies are found to have been in a public bank account at the end of an accounting year, commentary should be included in the note on cash at bank and in hand and in the disclosures above on the amount of third party monies held in the bank account.

consultation draft

Section 3: Applicability of accounting standards

Chapter 8 – Adopting and interpreting IASs and IFRSs

8.1 EU adopted IFRS

8.1.1 A list of EU adopted IFRS is shown in Table 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 these are identified below.

Table 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 1 <i>First-time Adoption of IFRS</i>		●		
IFRS 2 <i>Share-based Payments</i>	●			
IFRS 3 <i>Business Combinations</i>		●		
IFRS 4 <i>Insurance Contracts</i>	●			
IFRS 5 <i>Non-current Assets Held for Resale and Discontinued Operations</i>		●		
IFRS 6 <i>Mineral Resources</i>	●			
IFRS 7 <i>Financial Instruments: Disclosures</i> ⁸	●			
IFRS 8 <i>Operating Segments</i>	●			
IFRS 9 <i>Financial Instruments</i> ⁸⁺⁵		●	●	
IFRS 10 <i>Consolidated Financial Statements</i>			●	●
IFRS 11 <i>Joint Arrangements</i>			●	●
IFRS 12 <i>Disclosure of Interests in Other Entities</i>			●	●
IFRS 13 <i>Fair Value Measurement</i> ⁹	●			

⁸ Although IFRS 7 is applied without adaptation, and IFRS 9 is applied with adaptations relating solely to financial instruments within government, IFRS 15 and IAS 32 have been adapted for the public sector context to define what is considered to be a contract and a financial instrument. For further details see Table 6.2.

⁹ Although IFRS 13 is applied without adaptation, IAS 16 and IAS 38 have been adapted and interpreted for the public sector context to limit the circumstances in which a valuation is prepared under IFRS 13. For further details see Table 6.2.

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 <i>Revenue from Contracts with Customers</i> ⁸¹⁵		•	•	
IFRS 16 <i>Leases</i>		•	•	
IAS 1 <i>Presentation of Financial Statements</i>		•		
IAS 2 <i>Inventories</i>		•		
IAS 7 <i>Statement of Cash Flows</i>		•		
IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>	•			
IAS 10 <i>Events after the Reporting Period</i>		•		
IAS 12 <i>Income Taxes</i>	•			
IAS 16 <i>Property, plant and equipment</i>		•	•	
IAS 19 <i>Employee Benefits</i>		•	•	
IAS 20 <i>Accounting for government grants and disclosure of government assistance</i>		•		
IAS 21 <i>The effects of changes in foreign exchange rates</i>		•		
IAS 23 <i>Borrowing Costs</i>		•		
IAS 24 <i>Related party disclosures</i>		•	•	
IAS 26 <i>Accounting and Reporting by Retirement Benefit Plans</i>		•	•	
IAS 27 <i>Separate Financial Statements</i>			•	•
IAS 28 <i>Investments in Associates and Joint Ventures</i>			•	•
IAS 29 <i>Financial reporting in hyper-inflationary economies</i>		•		
IAS 32 <i>Financial Instruments: Disclosure and Presentation</i> ⁸¹⁵		•	•	
IAS 33 <i>Earnings per share</i>	•			
IAS 34 <i>Interim Financial Reporting</i>	•			
IAS 36 <i>Impairment of Assets</i>		•	•	
IAS 37 <i>Provisions, Contingent Liabilities and Contingent Assets</i>		•	•	
IAS 38 <i>Intangible Assets</i>			•	

Formatted: Fo
color: AutoFormatted: Fo
color: Auto

International Standard	Applies without adaptation	Applies as interpreted for public sector	Applies as adapted for public sector	Different adaptations or interpretation for ALBs
IAS 40 <i>Investment Property</i>		●		
IAS 41 <i>Agriculture</i>	●			

8.2 Interpretations and adaptations for the public sector context

8.2.1 Table 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.

8.2.2 Chapter 13 of this Manual provides additional guidance on adaptations and interpretations for the Whole of Government Accounts.

Table 2

IFRS 1 <i>First-time Adoption of International Financial Reporting Standards</i>	
Interpretations	This Manual requires financial statements to be prepared under the historical cost convention, modified by the revaluation of assets and liabilities to fair value as determined by the relevant account standard, and so the elections available in IFRS 1.16, 17 and 18 are not relevant.
IFRS 3 <i>Business Combinations</i>	
Interpretations	IFRS 3 excludes from its scope business combinations involving entities or businesses under common control. Public sector bodies are deemed to be under common control. Therefore IFRS applies only to combinations involving an entity or entities within the public sector with an entity outside the sector. Chapter 9 provides guidance on the accounting for a combination of two or more public sector bodies into one new body, or the transfer of functions from the responsibility of one part of the public sector to another.
IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i>	
Interpretations	In order to qualify as 'discontinued operations', the activities must cease completely: that is, responsibilities transferred from one part of the public sector to another (such as machinery of government changes) are not discontinued operations.
IFRS 9 <i>Financial Instruments</i>	
Interpretations	<ol style="list-style-type: none"> (1) Any financial instrument that is not held in furtherance of the entity's objectives but is held on behalf of government more generally should be accounted for in a separate Trust Statement. Entities should discuss such cases with the relevant authorities. (2) Special or 'golden' shares, being those shares retained in businesses that have been privatised but in which the department wishes to retain a regulatory interest or reserve power, should not be recognised in the Statement of Financial Position. (3) PDC should be reported at historical cost, less any impairment. (4) Where future cash flows are discounted to measure fair value, entities should use the higher of the rate intrinsic to the financial instrument and the real

	<p>financial instrument discount rate set by HM Treasury (promulgated in PES papers) as applied to the flows expressed in current prices.</p> <p>(5) The accounting policy choice allowed under IFRS 9 which allows entities upon transition to restate prior periods if, and only if, it is possible without the use of hindsight has been withdrawn. All entities applying this Manual shall recognise any difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application in the opening retained earnings (or other component of equity, as appropriate) of the annual reporting period that includes the date of initial application.</p> <p>(6) The accounting policy choice allowed under IFRS 9 for long term trade receivables, contract assets which do contain a significant financing component (in accordance with IFRS 15), and lease receivables within the scope of IFRS 16 has been withdrawn and entities should always recognise a loss allowance at an amount equal to lifetime Expected Credit Losses. All entities applying this Manual should utilise IFRS 9's simplified approach to impairment for relevant assets.</p> <p>(7) The accounting policy choice allowed under IFRS 9 which allows entities to either continue to apply the hedge accounting requirements of IAS 39 (until the macro hedging project is finalised) or to apply IFRS 9 has been withdrawn. All entities applying this Manual should apply IFRS 9 hedge accounting requirements (with the scope exception only for fair value macro hedges of interest rate risk).</p>
Adaptations	<p>(1) Balances with core central government departments (including their executive agencies), the Government's Exchequer Funds¹⁰, and the Bank of England are excluded from recognising stage-1 and stage-2 impairments. In addition, any Government Exchequer Funds' assets where repayment is ensured by primary legislation are also excluded from recognising stage-1 and stage-2 impairments. ALBs are excluded from the exemption unless they are explicitly covered by guarantee given by their parent department</p> <p>(2) Liabilities with core central government departments (including their executive agencies), the Government's Exchequer Funds, and the Bank of England are assessed as having zero 'own credit risk' by the entities holding these liabilities.</p>
IFRS 10 Consolidated Financial Statements	
Adaptations	<p>The departmental boundary is similar to the concept of a group under generally accepted accounting practice, but is based on control criteria used by the Office for National Statistics to determine the sector classification of the relevant sponsored bodies. Departments will account for subsidiaries under IFRS 10 only if they are designated for consolidation by order of the relevant authority under statutory instrument, which will reflect the ONS's classification of an entity to the central government sector.</p> <p>Agencies should follow the requirements of IFRS 10 only if the subsidiaries are within the controlling department's consolidation boundary.</p> <p>ALBs should apply IFRS 10 without adaptation.</p> <p>Chapters 4 and 9 provide guidance on the departmental accounting boundary and application of consolidation standards.</p>
IFRS 11 Joint Arrangements	

¹⁰ Government's Exchequer Funds include: the National Loans Fund; all Consolidated Funds; the Contingencies Fund; the Exchange Equalisation Account; the Debt Management Account; the Public Works Loan Board; and Commissioners for the Reduction of the National Debt.

Adaptations	<p>In accordance with the principles set out in Managing Public Money, executive non-departmental and similar public bodies classified to central government by the ONS will normally be controlled for accountability purposes by only one department in accordance with IFRS 10, and not as a joint arrangement under IFRS 11.</p> <p>Where a department has an investment in another public sector entity that has not been designated for consolidation, it should be reported following the requirements of IFRS 9. This includes all interests in bodies classified as public corporations by the ONS, which are within the scope of Managing Public Money principles.</p> <p>Agencies should follow the requirements of IFRS 11 with respect to public sector entities only if the entities are within the controlling department's consolidation boundary.</p> <p>Departments and agencies should apply IFRS 11 without adaptation to bodies classified to the private sector and rest of the world by the ONS.</p> <p>ALBs should apply IFRS 11 without adaptation.</p> <p>Chapters 4 and 9 provide guidance on the departmental accounting boundary and application of consolidation standards.</p>
IFRS 12 Disclosure of Interests in Other Entities	
Adaptations	<p>Disclosures of interests in other entities will be subject to the adaptations for departments and agencies to IFRS 10, IFRS 11, IAS 27 and IAS 28.</p> <p>Chapters 4 and 9 provide guidance on the departmental accounting boundary and application of consolidation standards.</p>
IFRS 15 Revenue from Contracts with Customers	
Adaptations	<p>1. The definition of a contract is expanded to include legislation and regulations which enables an entity to receive cash or another financial asset from another entity (other than income classified as a tax by the Office of National Statistics). The costs of preparing the legislation or regulations does not amount to assets under IFRS 15 (91-94).</p> <p>2. Where by statute or Treasury consent, an entity is permitted to retain the revenue from taxation, fines and penalties, this revenue shall be treated as arising from a contract and accounted for under IFRS 15 (15a).</p> <p>However, where entities receive revenue through taxation, fines and penalties which is wholly non-refundable and leads to no obligations, entities are not required to wait until all, or substantially all, of the promised revenue has been received to recognise the revenue. In these instances entities should recognise revenue when an equivalent to a taxable event has occurred, the revenue can be measured reliably, and it is probable that the assisted economic benefits from the taxable event will flow to the collecting entity. All these elements are required to be satisfied.</p>
Interpretations	<p>Upon transition, the following accounting policy choice to retrospectively restate in accordance with IAS 8 has been withdrawn. All entities applying the FReM shall recognise the difference between the previous carrying amount and the carrying amount at the beginning on the annual reporting period that includes the date of initial application in the opening general fund within taxpayers' equity (or other component of equity, as appropriate) per IFRS 15 C3(b). In using this transition approach</p> <ul style="list-style-type: none"> • The election to apply this Standard retrospectively only to contracts that are not completed contracts at the date of initial application should be exercised.

	<ul style="list-style-type: none"> The practical expedient available for contract modifications (C7A) should be exercised. <p>Further application guidance on accounting for revenue, as well as taxes and duties, is included in chapter 11</p>
IFRS 16 Leases	
Adaptations	<p>1. IFRS 16, as adapted and interpreted by this Manual, will be effective from 1 April 2020, with one exception. Early adoption from 1 April 2019 is available for entities where the following criteria are met:</p> <ul style="list-style-type: none"> the entity has at least one subsidiary that, under the Companies Act, is required to follow IFRS as adopted by the EU, and the total assets of the subsidiary comprise at least 10% of the total assets at the group level; the subsidiary (or subsidiaries) described above have operating lease commitments that comprise at least 10% of the operating lease commitments at the group level; and approval to early adopt has been received from HM Treasury. <p>2. The definition of a contract is expanded to include intra-UK government agreements where non-performance may not be enforceable by law.</p> <p>3. Peppercorn leases are defined as leases for which the consideration paid is nil or nominal (that is, significantly below market value). Peppercorn leases are in the scope of IFRS 16. All lessees shall account for peppercorn leases using the following criteria:</p> <ul style="list-style-type: none"> Recognise a right-of-use asset and initially measure it at current value in existing use or fair value, depending on whether the right-of-use asset will be held for its service potential and as set out in paragraphs 7.1.4 7.1.6. However, if the right-of-use asset meets the definition of a heritage asset, it should be initially measured in accordance with paragraphs 7.1.34-7.1.39. Recognise a lease liability measured in accordance with IFRS 16. Recognise any difference between the carrying amount of the right-of-use asset and the lease liability as income as required by IAS 20 as interpreted in this Manual. Subsequently measure the right-of-use asset following the principles of IFRS 16 as adapted and interpreted in this Manual. Upon transition, any peppercorn leases that were classified as operating leases under IAS 17 shall be recognised as follows: <ul style="list-style-type: none"> The right-of-use asset shall be measured at current value in existing use or fair value, depending on whether the right-of-use asset will be held for its service potential and as set out in paragraphs 7.1.4 7.1.6. However, if the right-of-use asset meets the definition of a heritage asset, it should be initially measured in accordance with paragraphs 7.1.34-7.1.39. The lease liability shall be measured at the present value of lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application. <p>The difference between the carrying amount of the right-of-use asset and lease liability shall be included as part of the adjustment to the opening balances of</p>

	taxpayers' equity (or other component of equity, as appropriate) per IFRS 16 (C5(b)).
Interpretations	<p>1. The option to apply the election in IFRS 16 (5) has been withdrawn. All entities must apply the recognition and measurement exemption for short-term leases in accordance with IFRS 16 (6-8).</p> <p>2. Where lessees cannot readily determine the interest rate implicit in the lease, they are instead required to use the HM Treasury discount rates promulgated in PES papers as their incremental borrowing rate. However, if an entity can demonstrate that another discount rate would more accurately represent their incremental borrowing rate (for example, if they undertake external borrowing independently of the Exchequer), they shall use that discount rate as their incremental borrowing rate.</p> <p>3. The subsequent measurement basis for right-of-use assets shall be consistent with the principles for subsequent measurement of property, plant and equipment set out in the adaptations to IAS 16. Chapter 10 paragraphs X-X set out how these bases apply to right-of-use assets. The assessment of whether cost is an appropriate proxy for current value in existing use or fair value shall be performed on an asset-by-asset basis.</p> <p>4. The option to reassess whether a contract is, or contains, a lease at the date of initial application has been withdrawn. All entities shall use the practical expedient detailed in IFRS 16 (C3).^[1]</p> <p>5. Upon transition, the accounting policy choice to apply IFRS 16 retrospectively to each prior period presented in accordance with IAS 8 has been withdrawn. All entities applying this Manual shall recognise the cumulative effects of initially applying IFRS 16 recognised at the date of initial application as an adjustment to the opening balances of taxpayers' equity (or other component of equity, as appropriate) per IFRS 16(C5(b)).</p> <p>6. Upon transition, entities shall measure the right-of-use asset for leases previously classified as operating leases per IFRS 16((C8 (b)(ii))): at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application.</p> <p>7. Upon transition, all entities applying this Manual shall apply the following options for leases previously classified as operating leases:</p> <ul style="list-style-type: none"> • No adjustments for leases for which the underlying asset is of low value that will be accounted for applying IFRS 16 (6). (IFRS 16 C9 (a)) • No adjustment for leases for which the lease term ends within 12 months of the date of initial application (with a requirement to include the cost associated with those leases in the short-term lease expense disclosure). (C10 (c)) • Use hindsight in determining the lease term if the contract contains options to extend or terminate the lease. (C10 (e))

^[1] This presumes that entities have been applying the guidance in IAS 17 and IFRIC 4 appropriately in the past. Any known misapplication of the definition of a lease guidance should be corrected as a prior period error in accordance with IAS 8 unless an entity has explicit approval from the relevant authority to do otherwise.

IAS 1 Presentation of Financial Statements	
Interpretations	<p>(1) References to 'present fairly' and to 'fair presentation' should be read to mean 'give a true and fair view' and 'truthful and fair presentation' to comply with the requirements of the Companies Act 2006.</p> <p>(2) In addition to naming the legislative authority for producing the accounts, the notes to the accounts shall disclose the basis of preparation of the financial statements as being in accordance with the FReM.</p> <p>(3) Going concern is interpreted for the public sector context:</p> <ul style="list-style-type: none"> • for non-trading entities, the anticipated continuation of the provision of a service in the future, as evidenced by inclusion of financial provision for that service in published documents, is normally sufficient evidence of going concern. However, a trading entity needs to consider whether it is appropriate to continue to prepare its financial statements on a going concern basis where it is being, or is likely to be, wound up, • Sponsored entities whose statements of financial position show total net liabilities should prepare their financial statements on the going concern basis unless, after discussion with their sponsors, the going concern basis is deemed in appropriate, and • Where an entity ceases to exist, it should consider whether or not its services will continue to be provided (using the same assets, by another public sector entity) in determining whether to use the concept of going concern for the final set of financial statements. <p>(4) IAS 1 requires entities to prepare a Statement of Comprehensive Income. Departments, NDPBs and Trading Funds should continue to follow the guidance in the FReM. Departments and NDPBs shall prepare a Statement of Comprehensive Net Expenditure as appropriate. Trading Funds shall prepare a Statement of Comprehensive Income.</p> <p>(5) The financing of public sector entities is ultimately tax-based and an IAS 1-based notion of capital does not apply to many of them. Capital disclosures should be given only with the agreement of the relevant authority.</p> <p>(6) The flexibility provided in IAS 1 to select the order of presentation of line items on the Statement of Financial Position and to present on a liquidity basis is withdrawn.</p> <p>(7) The IAS 1 comparative information requirements should be applied in full except that reporting entities should note that a decision on whether to include corresponding amounts in disclosures specific to government departments and agencies (for example, in relation to information on the Statement of Parliamentary Supply) will be taken on a case-by-case basis. Additionally, the Statement of Changes in Taxpayers' Equity for a departmental group shall include columns for the core department and agencies, and the consolidated group (usually core department, agencies and NDPBs).</p> <p>Chapter 4 provides application guidance on the form and content of the annual report and accounts and additional reporting requirements.</p>
IAS 2 Inventories	
Interpretations	In addition to the types of inventories identified in IAS 2, central government has categories of inventories for which IAS 2 may not adequately cover the accounting treatment.

	Chapter 10 provides guidance on the treatment of stockpile goods and military reserve inventories; confiscated, seized and forfeited property; and goods held under price support programmes.
IAS 7 Statement of Cash Flows	
Interpretations	Departments should follow the format of the Statement of Cash Flows in IAS 7 but should include at the foot of the statement those cash flows with the Consolidated Fund. Chapter 4 details the required format of the Statement of Cash Flows.
IAS 10 Events after the Reporting Period	
Interpretations	(1) Public Dividend Capital is not a financial instrument within the meaning of IAS 32. Unpaid dividends in respect of Public Dividend Capital shall continue to be recognised as liabilities as the reporting period. (2) The date of the Accounting Officer's authorisation for issue of the financial statements of the reporting entities covered by this Manual is normally the same as the date of the Certificate and Report of the Comptroller and Auditor General. The date of authorisation for issue must be included in the Annual Report and Accounts, but not on the title page.
IAS 16 Property, Plant and Equipment	
Adaptations	IAS 16 is adapted to specify the following valuation bases for property, plant and equipment: <ul style="list-style-type: none"> - Assets which are held for their service potential (i.e. operational assets) and are in use should be measured at current value in existing use. For non-specialised assets current value in existing use should be interpreted as market value for existing use. In the RICS Red Book, this is defined as Existing Use Value (EUV). For specialised assets current value in existing use should be interpreted as the present value of the asset's remaining service potential, which can be assumed to be at least equal to the cost of replacing that service potential. - Assets which were most recently held for their service potential but are surplus should be valued at current value in existing use as above if there are restrictions on the entity or the asset which would prevent access to the market at the reporting date. If the entity could access the market then the surplus asset should be valued at fair value using IFRS 13. - Assets which are not held for their service potential should be valued in accordance with IFRS 5 or IAS 40 depending on whether the asset is actively held for sale. Where such assets are surplus and do not fall within the scope of IFRS5 or IAS 40, they should be valued at fair value applying IFRS13.
Interpretations	(1) All tangible non-current assets shall be carried at either current value in existing use or fair value at the reporting date - that is, the option given in IAS 16 to measure at cost has been withdrawn, as has the option to value only certain classes of assets (2) It is not necessary to disclose the historical cost carrying amounts (where available) Further application guidance on accounting for property, plant and equipment, including heritage assets, networked assets and PPP arrangements, is included in chapter 10.
IAS 19 Employee benefits	
Adaptations	(1) The requirements of IAS 19 are to apply to the accounts of the pension schemes themselves as well as to the reporting entities and reportable activities covered

	<p>by the requirements of the FReM. This includes relevant disclosure requirements.</p> <p>(2) In the financial statements of the pension schemes only, contributions from employer and employees are to be shown as income in the statement of comprehensive net expenditure rather than as, respectively, a credit to the pension liability or a deduction from the current service cost. As a consequence, the pension liability will not reflect contributions.</p>
Interpretations	<p>(1) Employers whose employees are members of the pension schemes listed in paragraph 9.1.1 (including the NHS superannuation scheme) shall account for the scheme as a defined contribution plan.</p> <p>(2) IAS 19 requires the present value of defined benefit obligations (and, if applicable) the fair value of the plan's assets to be determined with sufficient regularity that the amounts recognised in the financial statements do not differ materially from those determined at the reporting period date. This shall be interpreted to mean that the period between formal actuarial valuations shall be four years, with approximate assessments in intervening years. Acceptable approximations shall include adjusting full valuation results using the latest available membership data.</p> <p>(3) The application of a discount rate advised annually by HM Treasury will not apply to funded schemes within central government. Reporting entities with funded schemes should use a discount rate in accordance with IAS 19 as advised by the scheme's actuary.</p> <p>(4) Where a central government entity has a share of a local government (or other) pension scheme liability on its statement of financial position, then that entity will use a discount rate determined by the appropriate authority in valuing its share and not the rate advised annually by HM Treasury.</p> <p>(5) Voluntary early retirements under scheme rules will be discounted at the pension's rate and not at the provisions rate.</p>
IAS 20 Accounting for Government Grants and Disclosure of Government Assistance	
Interpretations	<p>(1) The option provided in IAS 20 to offset a grant for acquisitions of an asset against the cost of the asset has been withdrawn.</p> <p>(2) The option provided in IAS 20 to defer grant income relating to an asset is restricted to income where the funder imposes a condition. Where assets are financed by government grant (not a grant from a sponsoring department to an NDPB) or donation (including lottery funding), the funding element is recognised as income and taken through the Statement of Comprehensive Net Expenditure. To defer this income, a condition imposed by the funder must be: a requirement that the future economic benefits embodied in the grant/donation are consumed as specified by the grantor/donor or must be returned to them, e.g. a grant that is conditional on the construction of an asset. Trading Funds, where they have the consent of the Relevant Authority, need not apply this interpretation.</p> <p>(3) A grant, contribution or donated asset may be received subject to a condition that it be returned to the transferor if a specified future event does or does not occur (for example, a grant may need to be returned if the authority ceases to use the asset purchased with that grant for a purpose specified by the transferor). In these cases, a return obligation does not arise until such time as it is expected that the condition will be breached and a liability is not recognised until that time. Such conditions do not prevent the grant, contribution or donated asset being recognised as income in the Statement of Comprehensive Net Expenditure.</p>

	<p>(4) Grant-in-aid is provided to match the recipient's cash needs and is to be accounted for on a cash basis. Any exceptions to this treatment must be agreed by the sponsoring department and the relevant authority.</p> <p>Chapter 11 provides application guidance on distinguishing between income and financing, the treatment of Supply, grants from UK government entities and the European Union, transactions with the Consolidated Fund and the Apprenticeship Levy</p>
IAS 21 <i>The Effects of Changes in Foreign Exchange Rates</i>	
Interpretations	The presentational currency will be the same as the functional currency i.e. pounds sterling.
IAS 23 <i>Borrowing Costs</i>	
Interpretations	Borrowing costs in respect of qualifying assets held at fair value shall be expensed.
IAS 24 <i>Related Party Disclosures</i>	
Interpretations	<p>(1) For the purposes of IAS 24.9(a), the related party will be one of those defined in paragraph 5.3.9.</p> <p>(2) Charitable ALBs may apply the general principle of exemption from related party disclosure in respect of trustees acting as agents of the charity, in accordance with the parameters contained within the Charities SORP.</p> <p>(3) Reporting entities should give the name of the parent department (if any), a note on the main entities within government with which the entity has had dealings (no information needs to be given about these transactions), and details of material transactions between the entity and individuals who are regarded as related parties. A suggested wording is in Annex 3.</p> <p>(4) The requirement to disclose the compensation paid to management, expense allowances and similar items paid in the ordinary course of an entity's operations will be satisfied by the disclosures made in the notes to the accounts and in the Remuneration Report.</p> <p>(5) In considering materiality, regard should be had to the definition in IAS 1, which requires materiality to be judged "in the surrounding circumstances". Materiality should thus be judged from the viewpoint of both the entity and the related party.</p>
IAS 26 <i>Accounting and Reporting by Retirement Benefit Plans</i>	
Adaptations	IAS 26 does not apply to forms of employment benefit other than retirement benefits. However, where schemes currently report separately transactions relating to termination benefits (also known as early departure costs or compensation payments) they should continue to do so. The treatment of such costs will depend on whether the scheme acts as a principal or an agent, and whether or not the early departure costs (however described) are regarded as retirement benefits and included within the pension provision.
Interpretations	<p>(1) Paragraph 18 of IAS 26 allows the present value of the expected payments by a retirement benefit plan to be calculated and reported using either current salary levels or projected salary levels. The pension schemes listed in paragraph 9.1.1 are to calculate and report the present value of the expected payments using projected salary levels; that is, the option of using current salary levels is not available</p> <p>(2) Paragraph 17 of IAS 26 allows information concerning the actuarially determined present value of promised retirement benefits to be disclosed:</p> <ol style="list-style-type: none"> a. as part of the statement of net assets, b. by way of note, or

	<p>c. in a separate actuarial report which is attached to the accounts.</p> <p>The pension schemes listed in paragraph 9.1.1 are to disclose the actuarially determined present value of promised retirement benefits within the statement of financial position; that is, options (b) and (c) are not available.</p> <p>Chapter 12 provides guidance on the accounting for termination benefits, the content for pension scheme financial statements and the accounting for additional voluntary contributions</p>
IAS 27 Separate Financial Statements	
Adaptations	The presentation of separate, non-consolidated financial statements will only be applied in full if the investment has not been designated for consolidation by order of the relevant authority under statutory instrument.
IAS 28 Investments in Associates	
Adaptations	<p>In accordance with the principles set out in Managing Public Money, executive non-departmental and similar public bodies classified to central government by the ONS will normally be controlled for accountability purposes by only one department. Therefore the public sector entity will be included in one department's consolidation order and will be consolidated by that department in accordance with IFRS 10.</p> <p>Where a department has an investment in another public sector entity that has not been designated for consolidation, it should be reported following the requirements of IFRS 9. This includes all interests in bodies classified as public corporations by the ONS, which are within the scope of Managing Public Money principles.</p> <p>Agencies should follow the requirements of IAS 28 with respect to public sector entities only if the entities are within the controlling department's consolidation boundary.</p> <p>Departments and agencies should apply IAS 28 without adaptation to bodies classified to the private sector and rest of the world by the ONS.</p> <p>NDPBs and trading funds should apply IAS 28 without adaptation.</p> <p>Chapter 4 provides guidance on the departmental accounting boundary and application of consolidation standards.</p>
IAS 29 Financial Reporting in Hyperinflationary Economies	
Interpretations	As all entities covered by the FReM have a functional currency of pounds sterling, HM Treasury will notify classification of the economy as hyperinflationary if appropriate.
IAS 32 Financial Instruments: Presentation	
Interpretations	Public Dividend Capital (PDC) is not an equity instrument as defined in the IAS. It should be presented as a form of financing in the Statement of Financial Position of the relevant entity. Dividends on PDC should be presented as a form of financing in the Statement of Comprehensive Net Expenditure and accounted for where appropriate in the Statement of Financial Position.
Adaptations	<p>References to 'contract' and 'contractual' within IAS 32 include legislations and regulations which:</p> <ul style="list-style-type: none"> • give rise to arrangements that in all other respects would meet the definition of a financial instrument under IAS 32.11; and, • do not give rise to transactions classified as a tax by the Office of National Statistics, except for revenue from taxation, fines and penalties that is recognised due to the IFRS 15 adaptation to the definition of a contract.

IAS 36 <i>Impairment of Assets</i>	
Adaptations	References in IAS 36 to the recognition of an impairment loss of a revalued asset being treated as a revaluation decrease to the extent that that impairment does not exceed the amount in the revaluation surplus for the same asset, are adapted such that only those impairment losses that do not result from a clear consumption of economic benefit or reduction of service potential (including as a result of loss or damage resulting from normal business operations) should be taken to the revaluation reserve. Impairment losses that arise from a clear consumption of economic benefit should be taken to the Statement of Comprehensive Net Expenditure.
Interpretations	Where an asset is not held for the purpose of generating cash flows, value in use is assumed to equal the cost of replacing the service potential provided by the asset, unless there has been a reduction in service potential. Chapter 10 provides additional guidance on the classification of impairments for budgetary purposes and application guidance.
IAS 37 <i>Provisions, Contingent Liabilities and Contingent Assets</i>	
Interpretations	Where the cash flows to be discounted are expressed in current prices, entities should use the real discount rates set by HM Treasury as promulgated in PES papers. N.B. Separate disclosure of information about a particular contingency need not be made if the information has a security marking. Chapter 9 details additional requirements for remote obligations outside the scope of IAS 37 to be reported to Parliament.
IAS 38 <i>Intangible Assets</i>	
Adaptations	Following the initial recognition of an intangible asset, for subsequent measurement IAS 38 permits the use of either the cost or revaluation model for each class of intangible asset. Where an active (homogeneous) market exists, intangible assets other than those that are held for sale should be carried at current value in existing use at the reporting period date – that is, the cost option given in IAS 38 has been withdrawn and the current value should be based on the market value in existing use. Where no active market exists, entities should revalue the asset, using indices or some suitable model, to the lower of depreciated replacement cost and value in use where the asset is income generating. Where there is no value in use, the asset should be valued using depreciated replacement cost. Chapter 10 provides application guidance for Carbon Reduction Commitment (CRC) Energy Efficiency Scheme
IAS 40 <i>Investment Properties</i>	
Interpretations	All investment property should be accounted for under the fair value model - that is, the option given in IAS 40 to adopt the cost model has been withdrawn. IAS 40 applies in full to all reporting entities covered by this Manual that hold (or are constructing or developing) properties only for the purpose of earning rentals or for capital appreciation or both. If earning rentals were an outcome of a regeneration policy, for example, the properties concerned would be accounted for under IAS 16 and not IAS 40.

Section 4: further accounting guidance

9.1 Business combinations

Applicability

- 9.1.1 IFRS 3 excludes from its scope business combinations involving entities or businesses under common control. Public sector bodies are deemed to be under common control. The combination of two or more public sector bodies into one new body, or the transfer of functions from the responsibility of one part of the public sector to another, will be accounted for as either a Transfer by Merger or as a Transfer by Absorption, as detailed below.
- 9.1.2 For the purposes of this manual, a function is defined as an identifiable business operation with an integrated set of activities and recognised assets and/ or liabilities that are capable of being conducted and managed to achieve the objectives of that business operation.
- 9.1.3 IFRS 3 applies to all combinations involving an entity or entities within the public sector with an entity outside the sector.
- 9.1.4 When a business combination has been incorrectly reported by preparers, IAS 8 should be applied in determining whether it is necessary to adjust retrospectively for material errors, as set out in Chapter 2 of this Manual. Any prospective change to an entity's reporting boundary where the business combination is not under common control should apply IFRS 3 in full.

Transfer by Merger or Transfer by Absorption

- 9.1.5 The accounting treatment for transfers of function under common control should be determined by aligning the reporting with the accountability for financial performance. The underlying objective is to ensure the financial reporting supports the accountability for the transferring function, and to do so in a symmetrical way to ensure there is no transparency gap. A transfer may require both treatments at different levels.
- 9.1.6 Transfer by Merger accounting should be applied at the group level for bodies applying this Manual. That is, for transfers of function between departments within central government, but not between a Westminster Department and the Welsh Government, Northern Ireland Assembly or Scottish Government, whose income and expenditure is controlled directly by parliamentary Supply processes (departmental group accounts).
- 9.1.7 As a Transfer by Merger, the carrying value of the assets and liabilities of the combining bodies or functions are not adjusted to fair value on consolidation. Appropriate adjustments should be made to achieve uniformity of accounting policies in the combining bodies.
- 9.1.8 The results and cash flows of all the combining bodies (or functions) should be brought into the financial statements of the combined body from the beginning of the financial year in which the combination occurred, adjusted to achieve uniformity of accounting policies. Restatement of comparatives, including that of the results for all the combining bodies (or functions) for the previous period, should be provided in accordance with IAS 1 as interpreted by this manual. Comparatives should be adjusted as necessary to achieve uniformity of accounting policies and consistency of presentation.
- 9.1.9 All other transfers of function between public sector bodies should be accounted for as Transfers by Absorption. This includes transfers: to or from Local Government, to or from Public Corporations; between Devolved Administrations and Whitehall Departments; within a departmental boundary; and for all transfers reported by Executive NDPB's, other arm's length bodies within central government and trading funds.

- 9.1.10 The carrying value of the assets and liabilities of the combining bodies or functions are not adjusted to fair value on consolidation. There should be no recognition of goodwill and no restatement of comparatives in the primary financial statements. The recorded amounts of net assets should be brought into the financial statements of the transferee from the date of transfer. The net asset/liability carrying value should be recorded as a non-operating gain/loss from the transfer of function, through net expenditure, with the transferor recording symmetrical entries. Revaluation reserves should be transferred in full, with the remaining balance transferred to the General Fund.
- 9.1.11 For all adjustments required to achieve uniformity of accounting policies, the double entry will be to the General Fund (or equivalent).

Disclosure

- 9.1.12 A reporting entity that receives a transfer of functions should disclose in its financial statements that the transfer has taken place (including a brief description of the transferred function), giving the date of the transfer, the name of the transferring body and the effect on the financial statements. Where accounted for as a Transfer by Absorption, the reporting entity should apply judgment as to whether the additional disclosure of historical financial performance of the function should be provided, to enable users to understand the operational performance
- 9.1.13 Both the transferor and the transferee of a business combination under common control should apply a symmetrical accounting treatment for the transfer. A reporting entity that transfers functions to another reporting entity should also provide the same information about the transfer in its financial statements. Public bodies controlled by a parent entity should provide the necessary information required by the parent entity to meet the requirements set out in paragraphs 4.2.5 to 4.2.11.

Other requirements

- 9.1.14 Transfers of non-current assets that are not machinery of government changes¹¹ or part of a transfer of functions should be transferred at fair value following the fair value measures in IFRS 3.
- 9.1.15 Any departure from the accounting treatments in 4.2.5 to 4.2.11 must be agreed with the Relevant Authority, and applied symmetrically by the transferor and transferee.

¹¹ Machinery of Government changes are those changes that transfer responsibility for a function from one part of the public sector to another.

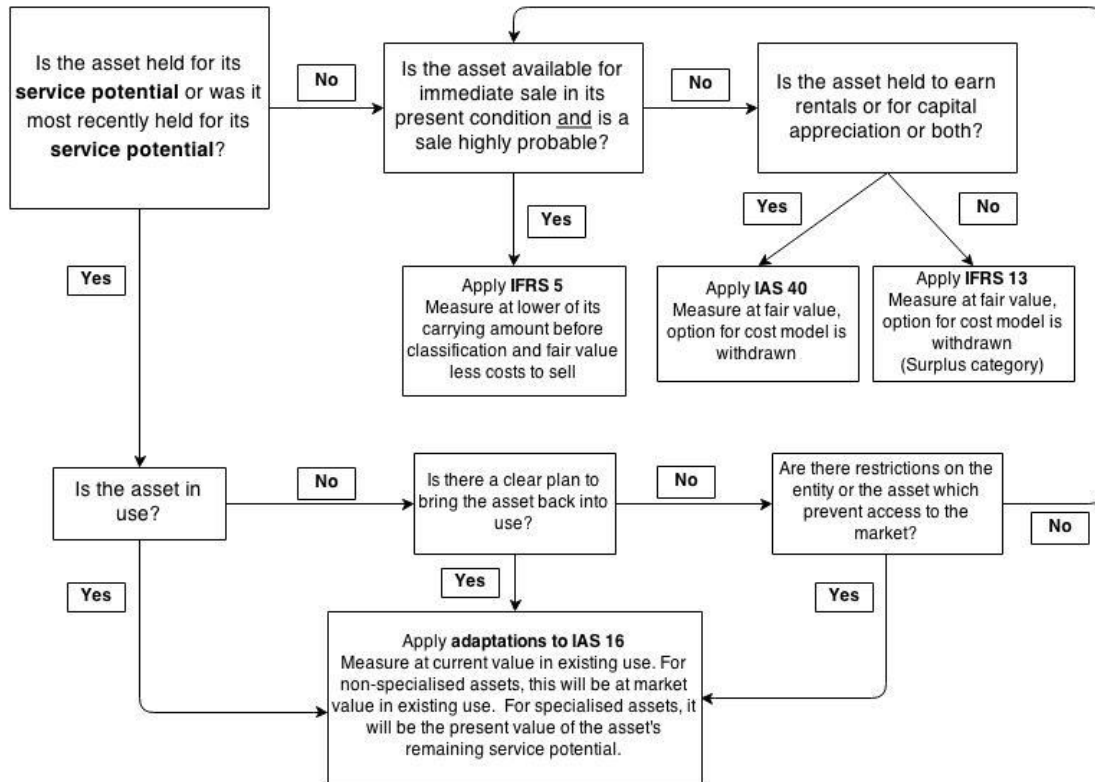
Chapter 10 - Further guidance on accounting for assets and liabilities *Property, plant and equipment (PPE)*

Valuations (excluding networked assets, donated assets and heritage assets)

- 10.1.1 In considering how best to apply the valuation requirements of IAS 16 so as to ensure that the Statement of Financial Position gives a true and fair view of the value of the assets at the reporting date, entities should consider the following guidance on property and non-property assets. The flowchart at the end of this section will assist in determining the appropriate accounting treatment of PPE excluding networked assets, donated assets and heritage assets.
- 10.1.2 Entities should value their PPE using the most appropriate valuation process. Such processes might include:
- a quinquennial valuation supplemented by either annual indexation or regular desktop valuation update
 - a quinquennial valuation supplemented by an interim professional valuation in year 3;
 - annual valuations;
 - a rolling programme of valuations or
 - for non-property assets only, appropriate indices
- 10.1.3 It is for valuers, using the Royal Institution of Chartered Surveyors; (RICS) 'Red Book' (RICS Valuation - Professional Standards), and following discussions with the entity, to determine the most appropriate methodology for obtaining either a current value in existing use or a fair value.
- 10.1.4 Assets which are held for their service potential (i.e. operational assets used to deliver either front line services or back office functions) should be measured at their current value in existing use. For non-specialised assets current value in existing use should be interpreted as market value in existing use which is defined in the RICS Red Book as Existing Use Value (EUUV). For specialised assets current value in existing use should be interpreted as the present value of the asset's remaining service potential, which can be assumed to be at least equal to the cost of replacing that service potential.
- 10.1.5 Assets which were most recently held for their service potential but are surplus should be valued at current value in existing use as per paragraph 7.1.4 if there are restrictions on the entity or the asset which would prevent access to the market at the reporting date. If the entity could access the market then the surplus asset should be valued at fair value using IFRS 13.
- 10.1.6 In determining whether an asset which is not in use is surplus, management should assess whether there is a clear plan to bring the asset back into future use as an operational asset. Where there is a clear plan, the asset is not surplus and the current value in existing use should be maintained. Otherwise, the asset should be assessed as being surplus and valued under IFRS 13.
- 10.1.7 Assets which are not held for their service potential should be valued in accordance with IFRS 5 or IAS 40 depending on whether the asset is actively held for sale.
- 10.1.8 Where an asset is not being used to deliver services and there is no plan to bring it back into use, with no restrictions on sale, and it does not meet the IAS 40 and IFRS5 criteria, these assets are surplus and should be valued at fair value using IFRS13.
- 10.1.9 Where a valuer, following discussion with the entity, determined that depreciated replacement cost (DRC) is the most appropriate measure of current value in existing use, entities and their valuers should have regard to the guidance contained in the most recent RICS Red Book.

- 10.1.10 Where DRC is used as the valuation methodology:
- entities should normally value a modern equivalent asset in line with the Red Book. Any plans to value a reproduction of the existing asset instead should be discussed with the relevant authority (through sponsoring bodies where appropriate) to determine whether such an approach is appropriate to the entity's circumstances.
 - entities should use the 'instant build' approach;
 - the choice of an alternative site will normally hinge on the policy in respect of the locational requirements of the service that is being provided.
- 10.1.11 The cost of enhancements to existing assets (such as building of a new wing within an existing prison or adding a lane to a motorway) should be capitalised during the construction phase as an asset under construction. At the first valuation after the asset is brought into use, any write down of cost should be treated as an impairment and charged to the Statement of Comprehensive Net Expenditure.
- 10.1.12 Entities should:
- disclose in the accounting policies note the fact that assets are carried at current value in existing use or fair value. Entities should also provide information about the approach to valuing their estates, including a statement (where applicable) that alternative sites have been used in DRC valuations;
 - disclose in the notes on tangible non-current assets: the date of the last valuations of those assets that are subject to revaluation, and the names and qualifications of the valuer; and
 - discuss in the Management Commentary, where they hold extensive estates: their estate management strategy; the indicative alternative use values provided by the valuer as part of the routine valuation work, and what those alternative use values mean in terms of their estate management policy.
- 10.1.13 As part of the Property, Plant and Equipment note entities are required, in the year the asset is acquired, to separately disclose the current value in existing use or fair value of those assets funded by government grant, donation or lottery funding. Where the funder provides cash, rather than the physical assets, any difference between the cash provided and the fair value of the assets acquired should also be disclosed.
- 10.1.14 Entities may elect to adopt a depreciated historical cost basis as a proxy for current value in existing use or fair value for assets that have short useful lives or low values (or both). For depreciated historical cost to be considered as a proxy for current value in existing use or fair value, the useful life must be a realistic reflection of the life of the asset and the depreciation method used must provide a realistic reflection of the consumption of that asset class. If depreciated historical cost is used as a proxy for current value in existing use or fair value then this fact should be disclosed, including the classes of assets where it has been used (where appropriate), the reasons why, and information about any significant estimation techniques (where applicable).

Flowchart of valuation for property, plant and equipment (excluding networked assets, donated assets and heritage assets)



Networked assets

10.1.15 Networked assets comprise assets that form part of an integrated network servicing a significant geographical area. These assets usually display some or all of the following characteristics:

- they are part of a system or network;
- they are specialised in nature and do not have alternative uses;
- they are immovable; and
- they may be subject to constraints on disposal.

Examples of networked assets include road networks, sewer systems, water and power supply systems and communications networks.

The road network

10.1.16 Land, Structures and Communications will be accounted for following the guidance in IAS 16.

10.1.17 The road surface asset managed by each of the highways authorities in England, Scotland, Wales and Northern Ireland will be recognised as a single asset by each such authority following the additional guidance in this manual.

10.1.18 The road surface asset will be held at depreciated replacement cost based on service potential.

10.1.19 Subsequent expenditure on the road surface will be capitalised where it enhances or replaces the service potential. Spending that does not replace or enhance service potential will be expensed.

- 10.1.20 The annual depreciation charge for the road surface will be the value of the service potential replaced through the maintenance programme plus, or minus, any adjustment resulting from the annual condition survey. The value of maintenance work undertaken will be used as an indication of the value of the replaced part. Where the condition survey shows that deterioration in the road surface exceeds the service potential replaced by the maintenance programme the additional deterioration will be taken to the Statement of Comprehensive Net Expenditure as part of the depreciation charge. Where the condition survey shows that deterioration in the road surface is less than the service potential replaced by the maintenance programme the depreciation charge will be reduced by the excess maintenance.
- 10.1.21 The road surface will be subject to annual valuations as measured by suitable indices. Upward movements in value will be taken to the revaluation reserve and included in comprehensive net expenditure. Downward movements in value will be set against any credit balance held in the revaluation reserve until this credit is exhausted and thereafter to net operating expenditure.
- 10.1.22 The road surface will be subject to an annual impairment review. Impairments will be recognised as required by IAS 36 Impairment of Assets as applied by the manual (see section 7.3).

Other Infrastructure

- 10.1.23 Where Bodies hold other networked assets the road surface accounting methodology detailed above may be used where it is appropriate to do so. However approval to use the road surface methodology should first be obtained from the relevant authority.

Donated assets

- 10.1.24 Assets donated by third parties (see also paragraph 7.1.30 on asset transfers), either by gift of the asset or by way of funds to acquire assets (including national lottery-funded assets) should be capitalised at current value in existing use or fair value on receipt, depending on whether the assets will be held for their service potential and as set out in paragraphs 7.1.4 to 7.1.6. The funding element should be recognised as income as required by IAS 20 as interpreted in this Manual.
- 10.1.25 To qualify for treatment as a donated asset there should be no consideration given in return.
- 10.1.26 Donated assets do not include:
- a) assets financed by grant-in-aid;
 - b) the subsequent capitalised expenditure on a donated asset which is capitalised;
 - c) assets constructed or contributed to by a developer to benefit the developer's business;
 - d) assets accepted in lieu of tax.
- 10.1.27 The assets listed in 7.1.26 should be accounted for in accordance with IAS 16 in the same way as other assets of that general type.
- 10.1.28 Donated assets should be revalued, depreciated and subject to impairment review in the same way as other non-current assets.
- 10.1.29 Details of any restrictions or conditions imposed by the donor on the use of the donated asset should be disclosed in a note to the financial statements.

Asset transfers

- 10.1.30 Entities may give or receive assets to/from another public sector body (including public sector bodies not covered by the requirements of this Manual) for no consideration. Assets acquired in this way will normally be recognized in accordance with IAS 20 as interpreted in this Manual. Entities should consult the relevant authority (through sponsoring bodies where appropriate) before entering into such a transaction.

Heritage assets**Definition**

- 10.1.31 A heritage asset is a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture. Heritage assets are those assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations. They are held by the reporting entity in pursuit of its overall objectives in relation to the maintenance of the heritage. Non-operational assets are those that are held primarily for this purpose. Operational heritage assets are those that, in addition to being held for their characteristics as part of the nation's heritage, are also used by the reporting entity for other activities or to provide other services (the most common example being buildings).
- 10.1.32 The reporting entity holding the asset should attest annually to the ongoing heritage credentials of its heritage assets. Heritage assets include historical buildings, archaeological sites, military and scientific equipment of historical importance, museum and gallery collections and works of art.
- 10.1.33 In principle, heritage assets should be accounted for in the same way as any other asset under IAS 16. There are, however, certain characteristics associated with heritage assets that give rise to the need for interpretation of IAS 16:
- a) Their value to government and the public in cultural, environmental, educational and historical terms is unlikely to be fully reflected in a financial value derived from a market mechanism or price.
 - b) Established custom and, in many cases, primary statute and trustee obligations impose prohibitions or severe restrictions on disposal by sale.
 - c) They are often irreplaceable and their value may increase over time even if their physical condition deteriorates.
 - d) They may require significant maintenance expenditure so that they can continue to be enjoyed by future generations.
 - e) Their life might be measured in hundreds of years.
 - f) Antiques and other works of arts held by reporting entities outside the main collections should be classified as heritage assets only when they fulfil the above requirements. Otherwise, antiques and other works of art should be accounted for in the same way as other assets.

Recognition and measurement

- 10.1.34 Operational heritage assets should be valued in the same way as other assets of that general type (buildings, for example).
- 10.1.35 Non-operational heritage assets should be valued subject to the requirements set out in paragraphs 7.1.36 to 7.1.39 below.
- 10.1.36 Where information is available on the cost or fair value of heritage assets:

- (i) they should be presented in the Statement of Financial Position separately from other tangible assets;
 - (ii) the Statement of Financial Position or the notes to the accounts should identify separately those classes of heritage assets being reported at cost and those at fair value; and
 - (iii) changes in the valuation should be recognised in the Other Comprehensive Expenditure section of the Statement of Comprehensive Net Expenditure, except impairment losses that should be recognised in accordance with section 7.3 of this Manual.
- 10.1.37 The accounting convention in this manual is to recognise non-current assets at either current value in existing use or fair value but, where exceptionally, it is not practicable to obtain a fair value, the heritage assets may be reported at historical cost.
- 10.1.38 Where assets have previously been capitalised or are recently purchased, information on their cost or fair value will be available. Where this information is not available, and cannot be obtained at a cost commensurate with the benefits to users of the financial statements, the assets will not be recognised in the Statement of Financial Position and the disclosure required by this manual should be made.
- 10.1.39 Valuations may be made by any method that is appropriate and relevant. There is no requirement for valuations to be carried out or verified by external valuers, nor is there any prescribed minimum period between valuations. However, where heritage assets are reported at valuation, the carrying amount should be reviewed with sufficient frequency to ensure the valuations remain current.

Depreciation and impairment

- 10.1.40 Depreciation is not required on heritage assets which have indefinite lives.
- 10.1.41 The carrying amount of an asset should be reviewed where there is evidence of impairment, for example, where it has suffered physical deterioration or breakage or new doubts arise as to its authenticity. Any impairment recognised should be dealt with in accordance with the recognition and measurement requirements of IAS 36 - 'Impairment of Assets' in section 7.3.

Donations

- 10.1.42 The receipt of donations of heritage assets should be recognised as income and taken through the Statement of Comprehensive Net Expenditure where there are no conditions specifically relating to the operating activities of the entity or recognised as deferred income in the Statement of Financial Position. Where exceptionally, it is not practicable to obtain a valuation for a donated heritage asset, the reasons why should be stated. Disclosures should also be provided on the nature and extent of significant donations.

Disclosures

- 10.1.43 The disclosures required for heritage assets are set out below and apply to all heritage assets:
- a) An entity's financial statements should contain an indication of the nature and scale of heritage assets held by the entity;
 - b) The financial statements should set out the entity's policy for the acquisition, preservation, management and disposal of heritage assets. This should include a description of the records maintained by the entity of its collection of heritage assets and information on the extent to which access to the assets is permitted. The information required by this paragraph may alternatively be provided in a document that is cross-referenced from the financial statements;

- c) The accounting policies adopted for an entity's holding of heritage assets should be stated, including details of the measurement bases used;
- d) For heritage assets that are not reported in the Statement of Financial Position, the reasons why should be explained and the notes to the financial statements should explain the significance and nature of those assets that are not reported in the Statement of Financial Position; and
- e) The disclosures relating to assets that are not reported in the Statement of Financial Position should aim to ensure that, when read in the context of information about capitalised assets, the financial statements provide useful and relevant information about the entity's overall holding of heritage assets.

10.1.44 Where heritage assets are reported in the Statement of Financial Position, the following should be disclosed:

- (i) the carrying amount of heritage assets at the beginning of the financial period and at the Statement of Financial Position date, including an analysis between those classes or groups of heritage assets that are reported at cost and those that are reported at valuation; and
- (ii) where assets are reported at valuation, sufficient information to assist in an understanding of the valuations being reported and their significance.

This should include:

- a) the date of the valuation;
- b) the methods used to produce the valuation;
- c) whether the valuation was carried out by external valuers and, where this is the case, the valuer's name and professional qualification, if any; and
- d) any significant limitations on the valuation.

10.1.45 An example of a limitation to be disclosed under paragraph 7.1.44 (ii) (d) would be where an asset has a particular provenance, the effect of which is not fully captured by valuation.

10.1.46 Information that is available to the entity and is helpful in assessing the value of those heritage assets that are not reported in the entity's Statement of Financial Position should be disclosed.

10.1.47 The financial statements should contain a summary of transactions relating to heritage assets disclosing, for the accounting period and each of the previous four accounting periods:

- a) the cost of acquisitions of heritage assets;
- a) the value of heritage assets acquired by donation;
- b) the carrying amount of heritage assets disposed of in the period and the proceeds received; and
- c) any impairment recognised in the period.

This summary should show separately transactions in assets that are reported in the Statement of Financial Position and those that are not.

10.1.48 The disclosures required by paragraphs 7.1.43 to 7.1.475 may be presented in aggregate for groups or classes of heritage assets provided this aggregation does not obscure significant information. Separate disclosures should be provided for those assets reported at cost and those reported at valuation. Amounts in respect of assets that are not reported in the Statement of Financial Position should not be aggregated with amounts for assets that are recognised at cost or valuation.

Accounting for PPP arrangements, including PFI contracts, under IFRS

10.1.49 This section of the Manual deals with the accounting treatment of PPP arrangements, including PFI contracts, that meet the definition of service concession arrangements in IFRIC 12 Service Concession Arrangements. To be within the scope of IFRIC 12, the service concession arrangement must contractually oblige the private sector operator to provide the services related to the infrastructure to the public on behalf of the grantor (the public sector) (IFRIC 12.3). Contracts that do not involve the transfer or creation of an infrastructure asset for the purpose of the contract fall outside the scope of IFRIC 12, as do arrangements that do not involve the delivery of services to the public. Examples of infrastructure for public services are: roads, bridges, tunnels, prisons, hospitals, airports, water distribution facilities, telecommunication networks, permanent installations for military etc. operations, and non-current assets used for administrative purposes in delivering services to the public.

10.1.50 The private sector operator will apply IFRIC 12 to those arrangements where:

- a) the grantor controls or regulates what services the operator must provide with the infrastructure, to whom it must provide them and at what price; and
- b) the grantor controls – through beneficial entitlement or otherwise – any significant residual interest in the infrastructure at the end of the term of the arrangement.

Where the infrastructure asset is used for its entire useful life, and there is little or no residual interest, the arrangement would fall within the scope of IFRIC 12 where the grantor controls or regulates the services as described in the first condition (see also IFRIC 12.6). Significant residual interest will exist where the grantor is contractually required to purchase the infrastructure asset at the end of the term of the arrangement.

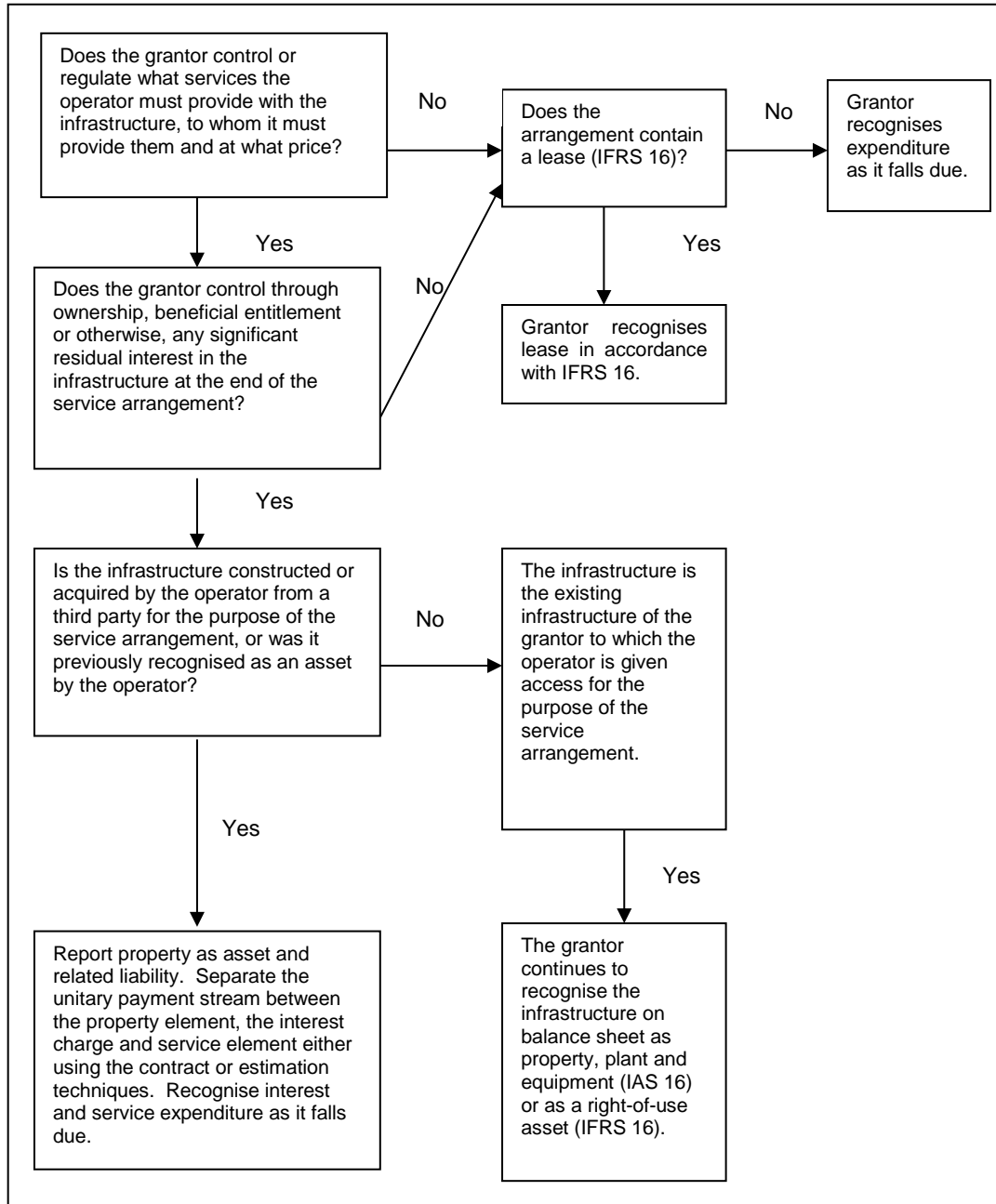
10.1.51 IFRIC 12 (Application Guidance paragraph 3) notes that, in determining the applicability of the first condition, non-substantive features (such as price capping that would apply only in remote circumstances) should be ignored and the substance of the arrangement considered.

10.1.52 IFRIC 12, including the Appendices, Information Notes, Illustrative Examples and Basis for Conclusions, provides guidance on how to apply IFRS to service concession arrangements. IFRIC 12 does not create exceptions from other IFRS for transactions that are within service concession arrangements, other than as specifically stated in IFRIC 12. Issues not addressed explicitly in this section of the Manual should be resolved by reference to other IFRS. IFRIC 12 applies to:

- arrangements where the infrastructure is used for its entire useful life;
- infrastructure that the operator constructs or acquires from a third party; and
- infrastructure that the grantor provides to the operator for the purpose of the concession.

10.1.53 IFRIC 12 does not specify the accounting for infrastructure that was held and recognised as an asset by the operator prior to entering the arrangement (IFRIC 12.6-8). This is because the operator would de-recognise the asset under IAS 16. Paragraph 7.1.50 interprets IFRIC 12 for the public sector by including an asset previously owned by the operator within the criteria for recognising the arrangement as a service concession. The flowchart overleaf will assist in determining the appropriate accounting treatment of PPP arrangements, including PFI contracts by public sector grantors.

Flowchart of accounting for PPP arrangements



Initial recognition and measurement of assets and liabilities in new arrangements and contracts

10.1.54 Where there is infrastructure, whether previously owned by the contractor or the grantor, or constructed or acquired from a third party for the purpose of the service arrangement, and the grantor:

- a) Controls or regulates what services the operator must provide with the infrastructure, to whom it must provide them and at what price; and
- c) Controls through beneficial entitlement or otherwise, any significant residual interest in the infrastructure at the end of the term of the arrangement (or there is no residual interest).

Then the PPP arrangement or PFI contract is a service concession within the meaning of IFRIC 12 from the grantor's viewpoint.

- 10.1.55 The grantor should recognise the infrastructure as a non-current asset and value it in the same way as other non-current assets of that generic type. The asset will be recognised when:
- d) it is probable that future economic benefits associated with the asset will flow to the organisation; and
 - e) the cost of the asset can be measured reliably.

The grantor should consider the asset recognition criteria, together with the specific terms and conditions of the binding arrangement, when determining whether to recognise the service concession asset during the period in which the asset is constructed or developed. If the asset recognition criteria have been met a work-in-progress service concession asset and associated liability should be recognised. If not and the grantor makes contributions to the operator in advance of the asset coming into use, the grantor should account for those payments as prepayments.

Subsequent measurement

- 10.1.56 The asset will be measured in one of two ways:
- a) where the contract is separable between the service element, the interest charge and the infrastructure asset (see also paragraph 7.1.53), the asset will be initially measured following the guidance in IFRS 16, with the service element and the interest charge recognised as incurred over the term of the concession arrangement (the subsequent measurement should be subject to the guidance of IAS 16); or
 - b) where there is a unitary payment stream that includes infrastructure and service elements that cannot be separated, the various elements will be separated using estimation techniques as set out in paragraph 7.1.52.
- 10.1.57 The grantor should separate out the service, interest and infrastructure elements. A contract may be separable in a variety of circumstances, including but not limited to the following:
- a) the contract identifies an element of a payment stream that varies according to the availability of the property itself and another element that varies according to usage or performance of certain services;
 - b) different parts of the contract run for different periods or can be terminated separately. For example, an individual service element can be terminated without affecting the continuation of the rest of the contract; or
 - c) different parts of the contract can be renegotiated separately. For example, a service element is market tested and some or all of the cost increases or reductions are passed on to the grantor in such a way that the part of the payment by the grantor that relates specifically to that service can be identified.
- 10.1.58 In situations where it is not possible to separate the contract due to commercial reality, the service element of the payments must be estimated, which could be achieved by obtaining information from the operator or by using the fair value approach. The fair value of the asset determines the amount to be recorded as an asset with an offsetting liability. The total unitary payment is then divided into three: the service charge element, repayment of the capital element of the contract obligation and the interest expense on it (using the interest rate implicit in the contract).
- 10.1.59 For both existing and new contracts, where it is not practicable to determine the interest rate implicit in the contract, the grantor shall use its cost of capital rate (including inflation). It is expected that this situation would be rare. The rate should not be changed unless the infrastructure element or the whole of the contract is renegotiated.

- 10.1.60 Entities covered by the requirements of this manual should use the Treasury discount rate for investment appraisal purposes (currently 3.5%) as their cost of capital rate. This rate is stated in real terms and must be adjusted for the inflation rate to arrive at the nominal rate. The nominal rate can be calculated using inflation rates given in the table 16 of the Treasury's Pocket Data Bank. The Pocket Data Bank can be found at on the gov.uk website.
- 10.1.61 Under either approach, the grantor will recognise a liability for the capital value of the contract. That liability does not include the interest charge and service elements, which are expensed annually to the Statement of Comprehensive Net Expenditure.
- 10.1.62 Reporting entities should adopt an appropriate asset revaluation approach as set out earlier in this chapter. Liabilities will be measured using the appropriate discount rate, taking account of the reduction arising from the capital payments included in the unitary payment stream.
- 10.1.63 Revenue received under any revenue sharing provision in the service concession arrangement should be recognised when all the conditions as laid down in IFRS 15 have been satisfied.
- 10.1.64 The grantor should recognise any guarantees to the operator that it will meet any shortfalls in revenue or repay the debt if the operator defaults in line with the requirements of IAS 32 and IFRS 9.
- 10.1.65 The grantor should derecognise a non-current asset provided to the operator (and not used in the arrangement) and recognise any consideration received at fair value. If the consideration received is in the form of a reduction in future payments, this should be recognised as an asset representing a reduction in the future liability (normally as a prepayment).

10.2 *Right-of-use assets*

- 10.2.1 When determining a current value in existing use or fair value for right-of-use assets, entities should bear in mind that, in most cases, the cost model in IFRS 16 is an appropriate proxy for current value in existing use or fair value. This is because right-of-use assets generally have shorter useful lives and values than their respective underlying assets (see guidance in paragraph 7.1.14 regarding using cost as a proxy for owned assets with shorter economic lives or low values). Additionally, in many cases leases will have provisions to update rental payments for market conditions, which will be captured in the IFRS 16 cost measurement requirements.
- 10.2.2 However, for some right-of-use assets, the cost model in IFRS 16 will not be an appropriate proxy for current value in existing use or fair value. This is likely to be the case when both of the following conditions are met:
- a) A longer-term lease has no provisions to update lease payments for market conditions (such as rent reviews), or if there is a significant period of time between those updates; and
 - b) The current value in existing use or fair value of the underlying asset is likely to fluctuate significantly due to changes in market prices. This is more likely to be the case with property assets.
- 10.2.3 An example of the case described above would be a 30-year lease of property with one rent review at the end of year 15, where the market for the property was active and volatile.

- 10.2.4 To measure the current value in existing use of a right-of-use asset, a valuer should calculate the full replacement cost of the right-of-use asset by identifying the current market rental value that could be achieved for existing use of the right-of-use asset and capitalise it for the full remaining lease term from the valuation date. This valuation should reflect the terms and conditions of the lease giving rise to the right-of-use asset, and should reflect an assumption that the entity requires the use of the entire right-of-use asset. The Royal Institution of Chartered Surveyors (RICS) will publish guidance for valuers consistent with the above.
- 10.2.5 If the cost model in IFRS 16 is used as a proxy for current value in existing use or fair value then this fact should be disclosed, including the classes of right-of-use assets within which it has been used (where appropriate) and the reasons why.
- 10.2.6 Finally, entities should bear materiality in mind when applying this guidance, just as in other areas of financial reporting. Part of the reason that, in most cases, the cost model in IFRS 16 is an appropriate proxy for current value is that there is not a material difference between the valuation produced by the cost model or the valuation produced by the revaluation model.

10.3 *Intangible assets*

- 10.3.1 Participation by reporting entities in the CRC Scheme gives rise to a liability related to emissions made. The liability is recognised for the obligation to deliver allowances to the CRC Registry equal to the emissions made. Purchased allowances give rise to an asset.
- 10.3.2 CRC Scheme assets are classified as either current or non-current intangible assets, or if held for the purpose of trading, as a current asset. The asset, whether classified as a current or as an intangible (current or non-current) asset shall be measured initially at cost.
- 10.3.3 Scheme assets in respect of allowances shall be revalued at fair value where there is evidence of an active market. Until there is evidence of an active market, scheme assets in respect of allowances shall be measured at cost, as a proxy for fair value.

10.4 *Impairments*

- 10.3.1 Where the carrying amount of an asset exceeds its recoverable amount departments will recognise an impairment loss. Departments need to establish whether any of the impairment loss is as a result of:
- Consumption of economic benefit or reduction in service potential, or;
 - A change in market price.
- 10.3.2 A fall in value relating to a consumption of economic benefit or reduction in service potential is always taken to the SoCNE. A fall in value relating to changes in market price should first be offset against a revaluation reserve for the asset in question if there is one, and once that element of the reserve is exhausted the fall in value should be taken to the SoCNE.
- 10.3.3 Examples of impairments resulting from a consumption of economic benefit or service potential include losses as a result of loss or damage, abandonment of projects, gold-plating and use of the asset for a lower specification purpose.
- 10.3.4 In budgetary terms, certain impairments will score as DEL and others as AME, and departments will enter the type of impairment onto OSCAR using the relevant account

code. The Consolidated Budgeting Guidance (CBG) contains more detail. The budgeting treatment does not influence the accounting treatment, but entities might wish to consider whether information about the type and cause of impairment could usefully be included in the relevant notes to the accounts.

- 10.3.5 Where an asset has been impaired due to a clear consumption of economic benefit or reduction in service potential, any balance on any revaluation reserve (up to the level of the impairment) to which the impairment would have been charged under IAS 36 should be transferred to the general fund. This ensures that the outcome as reflected in the reserves figure on the Statement of Financial Position is consistent with the requirements of IAS 36 had the FReM adaptation of IAS 36 not been applied
- 10.3.6 The capitalised development expenditure that is directly linked to a tangible non-current asset should be impaired only where the tangible non-current asset becomes impaired. Where the intangible asset relates to a group of tangible non-current assets, any impairment will be charged only where the entire group is impaired and will be proportionate to the impairment of the group of tangible assets. For example, development expenditure related to a fleet of aircraft will be impaired only where the entire fleet is impaired and not if less than the whole fleet is impaired.

10.4 Inventories

- 10.4.1 In addition to the types of inventories identified in IAS 2, central government has categories of inventories for which IAS 2 may not adequately cover the accounting treatment.

Stockpile goods

- 10.4.2 Stockpile goods may be defined as strategic materials held for use in national defence and national emergencies. They can be further categorised as:
- a) non-current assets, which should be accounted for in the same way as other assets of the same type; or
 - b) other non-deteriorable and deteriorable inventories (the latter possibly being turned over from time to time to avoid obsolescence). Minimum capability levels of inventories should be accounted for as non-current assets. Other inventories should be accounted for under IAS 2.

Confiscated, seized and forfeited property

- 10.4.3 The proceeds of realisations of confiscated, seized and forfeited property go to the Consolidated Fund and are usually not for the benefit of the collecting entity concerned. Because of this, it would be inappropriate to recognise confiscated, seized and forfeited property in financial statements (other than Trust Statements), unless exceptionally agreed with the Relevant Authority. Entities should state by way of memorandum note the proceeds derived from these realisations.
- 10.4.4 The proceeds of items sold to satisfy outstanding tax liabilities, net of sale expenses, should be treated in the same way as other taxation receipts.

Goods held under price support and stabilisation programmes (intervention stocks)

- 10.4.5 Intervention buying is a method of supporting market prices for certain agricultural commodities. The Rural Payments Agency is required to buy, at prices determined by the European Commission, produce of defined quality offered to it in accordance with detailed regulations. Purchased stocks are valued at cost, adjusted by any depreciation or revaluation prescribed by the Commission to bring them into line with market values. Costs of depreciation and any losses on sales are borne by, and any profits on sales or revaluations are surrendered to, the Commission. The method of valuation for

intervention stocks is based on the requirements of the Commission and neither IAS 2 nor IAS 41 Agriculture apply.

consultation draft

Chapter 11 - Further guidance on accounting for income and expenditure

11.1 Income

Definitions

11.1.1 The following paragraphs provide definitions of the various types of income that departments might expect to receive. Funding from the following sources should not, however, be accounted for as income but as financing through the General Fund:

- Supply;
- grant in aid received by arm's length bodies;
- grants from the Wales Office to the Welsh Government, from the Scottish Office to the Scottish Government and from the Northern Ireland Office to the Northern Ireland Assembly;
- amounts from the National Insurance Fund;
- amounts from the Consolidated Fund in respect of standing services;
- advances from the Contingencies Fund;
- amounts appropriated from tax revenue in the HMRC Trust Statement for the purpose of paying tax credits; and
- amounts appropriated from National Insurance contributions in the HMRC Trust Statement for the purpose of financing the NHS.

11.1.2 The parliamentary process and accounting arrangements determine how income is presented. The following sections look at the arrangements for government departments whose activities cover the whole of the United Kingdom, or that are responsible for activities in England or Northern Ireland and the arrangements in Scotland. There are separate arrangements in Wales, details of which can be obtained from the Welsh Government.

11.1.3 ALBs should refer to the following definitions as appropriate to their circumstances. There may be situations where, in consultation with their sponsoring bodies, ALBs cannot retain some of their earned income, but the norm is likely to be that all income earned by these entities will be retained as operating income. ALBs should refer to paragraph 8.1.14 for guidance on accounting for grants and grants-in-aid.

Operating and non-operating income

11.1.4 Operating income is any income generated by an entity in pursuit of its activities or as part of managing its affairs (examples include rents, interest and dividends receivable). Proceeds arising from the sale of investments and non-current assets are accounted for as non-operating income.

Retainable and non-retainable income

11.1.5 All income from contracts with customers should be recognised in the Statement of Comprehensive Net Expenditure in accordance with 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.

EU income

- 11.1.6 EU income from whatever source, other than receipts for which the entity is acting as an agent for the European Union in making payments to third parties should be treated as income and recorded on a gross basis in the Statement of Comprehensive Net Expenditure.
- 11.1.7 In the case of EU twinning project receipts or similar schemes where the entity is acting as an agent of the EU, amounts to be transferred to other member states as EU funding are not income in the United Kingdom and so should be treated as third-party assets as the amounts held represent assets for which the department acts as custodian but in which the government has no beneficial interest.
- 11.1.8 Where there is a delay in the receipt of EU funds, either direct from the European Union or via the Rural Payments Agency, the amount due should be treated as accrued income and shown in the Statement of Financial Position. The notes to the financial statements should disclose separately accrued income relating to EU funding.

Accruing resources (Northern Ireland departments)

- 11.1.9 Northern Ireland departments must seek the approval of the relevant authority and obtain parliamentary approval to retain income which would otherwise be surrendered to the Consolidated Fund (that is, seek approval to appropriate income in aid of voted expenditure – as ‘accruing resources’). In most cases, income will be retained in support of expenditure within the same budget boundary, but, subject to its taking out a Supplementary Estimate, a department may retain income within one budget boundary against related expenditure in another if there is a direct link between the two. Transactions between a department's budget boundaries in the Statement of Parliamentary Supply will be eliminated in the Statement of Comprehensive Net Expenditure.
- 11.1.10 Income (either operating or non-operating) in excess of the level authorised by Parliament to be retained in respect of each budget boundary is not included in the calculation of net resource outturn. This income is treated as Consolidated Fund Extra Receipts for the purposes of parliamentary control within the Statement of Parliamentary Supply, and is paid into the Consolidated Fund. As excess income is calculated in respect of each budget boundary, it is possible for there to be excess income even though, in aggregate, income is within the voted limits.

Scotland

- 11.1.11 Operating income is income that relates directly to the operating activities of the Scottish Executive, its Executive Agencies, the Crown Office and Procurator Fiscal Service and NHS bodies. It includes fees and charges for services provided, on a full cost basis, to external customers and public repayment work and from investments. Departmental Outturn Statements include both income applied without limit and income applied with limit as outlined by the Scottish Budget documents. For income categorised as being applied with limit, any excess income over that approved is surrendered to the Scottish Consolidated Fund. Operating income is stated net of VAT.
- 11.1.12 A separate note to the Scottish Executive Consolidated Accounts provides an analysis between income applied and income not applied. Income not applied includes amounts for surrender to the Scottish Consolidated Fund in accordance with the Scotland Act 1998 (Designation of Receipts) Order 2000 and excess receipts not covered by the Budget Act authority, which must by default be surrendered to the Scottish Consolidated Fund. All interest receivable is external to the departmental boundary and is not from other government departments and is included within operating income in respect of Voted Loans and Housing Association Loans.

Grants and grants-in-aid

11.1.13 Other than charitable ALBs, who should follow the requirements of the Charities SORP, ALBs should regard grants and grants-in-aid as contributions from controlling parties giving rise to a financial interest in the residual interest of the body, and hence should account for them as financing, i.e. by crediting them to the income and expenditure reserve. The treatment of grants and grants-in-aid is in accordance with IAS 20 as interpreted by this Manual. Any proposal for alternative accounting treatment should be approved by the department responsible for the ALB and the relevant authority.

11.2 Accounting for Supply

11.2.1 Departments should account for Supply as follows.

- a) Supply Drawn Down and Deemed Supply should not be accounted for as income. Supply should be credited to the General Fund as financing, with amounts in respect of different financial years shown separately;
- b) Supply should be shown in the Statement of Cash Flows as 'financing from the Consolidated Fund (Supply)' and analysed between amounts relating to the current year and the prior year;
- c) Amounts issued from the Consolidated Fund but not spent at the year-end should be disclosed as year-end creditors. This credit balance will be cleared in the following year when the creditor is settled by means of Deemed Supply;
- d) Cash expended in excess of the amounts issued from the Consolidated Fund but within the net cash requirements set by Parliament should be disclosed as a year-end debtor. This should occur only rarely, but might arise where, for example other financing – e.g. National Insurance Fund payments – are used to meet expenditure that should have been settled by Supply funding. This debtor will be cleared in the following year when the cash is issued from the Consolidated Fund.
- e) Where the net cash requirement outturn is in excess of the cash requirement approved by the parliamentary Estimate, a Consolidated Fund Supply Debtor should only be recognised up to the value of the net cash requirement approved by Parliament, not up to the value of net cash requirement outturn. At the year end the Department has not obtained approval to spend this additional cash and no obligation exists on the part of the Consolidated Fund to supply the deficit. As the department has no right to receive this benefit, the recognition of the Supply Debtor within the accounts must be limited to the level set within the Supply Estimate. Should parliamentary approval subsequently be given for the excess cash expenditure (as it generally will be), a Consolidated Fund Supply Debtor should be created for all cash owed, which will be cleared as funds are issued.

11.2.2 Departments are required to complete a return to the Exchequer Funds and Accounts (EFA) team in the Treasury for the purposes of confirming the amount of Supply issued and deemed to have been issued and the surrender of receipts to the Consolidated Fund. The return should be agreed with EFA and the agreed return together with evidence of EFA's agreement should be provided to the National Audit Office prior to the annual report and accounts being signed and laid before Parliament.

11.3 Consolidated Fund revenue

11.3.2 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

- 11.3.3 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.
- 11.3.4 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 expected to be paid 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.
- 11.3.5 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.
- 11.3.6 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.
- 11.3.7 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.
- 11.3.8 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

- 11.3.9 Fines and penalties are economic benefits payable to government for breaches of laws or regulations where there is a statutory obligation to pay.
- 11.3.10 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.
- 11.3.11 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

- 11.3.12 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.

11.3.13 The intention of the underlying legislation¹² 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.

11.3.14 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.

11.3.15 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;
- 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.

11.3.16 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 IFRS 9.

11.3.17 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).

11.3.18 Where by statute or approval from HM Treasury, an entity is permitted to retain revenue from taxation, fines and penalties, this revenue shall be treated as arising from a contract and accounted for under IFRS 15 (15a). Details on this adaptation are given in Table 6.2.

Presentation

11.3.19 Where revenue from taxes, duties fines and penalties is material to the entity, it shall prepare a trust statement containing details of the material income, expenditure, assets, liabilities and cash flows detailed in a Statement of Revenue, Other Income and Expenditure, a Statement of Financial Position and a Statement of Cash Flows, together with supporting notes to those primary statements, to give a true and fair view of the statement of affairs relating to the collection and allocation of taxes, duties fines and penalties and any other revenues and related expenditure.

¹² As required by The Exchequer and Audit Departments Act 1921

11.3.20 Where revenue from taxes, duties, fines and penalties is not material to the entity, it need not prepare the trust statement set out in the preceding paragraph, but may do so if it provides a clearer interpretation of the state of affairs. Where the entity does not produce the statements in the preceding paragraph, it shall set out in a note to the accounts details of the amounts collected and surrendered or otherwise expended (but shall not include them in its statement of income and expenditure) and of the amounts receivable and payable at the end of the reporting period.

Disclosures

11.3.21 An entity shall disclose:

- in the notes to the trust statement, the main accounting policies, estimates and judgements used to assess tax income, expenditure, assets and liabilities, including any provision created in respect of tax, fines or penalties deemed uncollectible;
- in the notes to the trust statement, a statement of those taxes reported on an accruals basis and those on a cash basis; and
- any additional supporting information which might aid the understanding of users of the accounts. This will include the following where material:
 - Details of fraud, evasion and error;
 - Accounting estimates of accrued tax revenue; and
 - Credit risk disclosures relating to debt write-offs, remissions and overdue debt.

Devolved Tax Accounts – Scotland

11.3.22 Scottish Ministers require Revenue Scotland, the tax authority responsible for the administration and collection of devolved taxes in Scotland, to produce an annual account of the Devolved Taxes. The Devolved Taxes flow into the Scottish Consolidated Fund and so the Devolved Taxes account will be laid in the Scottish Parliament and published separately from the annual accounts produced by Revenue Scotland, so that it can also be closely associated with the Scottish Consolidated Fund accounts.

11.3.23 The Devolved Taxes account will be produced in accordance with an accounts direction and with the Scottish Public Finance Manual and will:

- follow the accounting principles set out in section 8.2.14 and 8.2.15
- have the form and content specified in the accounts direction and the Scottish Public Finance Manual
- provide equivalent disclosures, where relevant, to those set out in 8.2.20

11.4 Expenditure

EU Expenditure

11.4.2 Expenditure in respect of grants or subsidy claims, whether European Agriculture Guidance and Guarantee Fund, European Regional Development Fund, Financial Instrument for Fisheries Guidance, etc., should be recognised in financial statements as closely as possible to the time of the underlying event or activity that gives rise to a liability. In practice, entities may find that claims received or authorised may form a suitable approximation for the liability, if applied consistently.

11.4.3 Where material, all expenditure in respect of grants or subsidy claims should be accounted for gross. Where an entity provides services to a candidate country under a twinning project, relevant income and expenditure should be accounted for as EU income (see paragraphs 8.1.6 to 8.1.8) and related expenditure (paragraphs 8.3.3 and 8.3.).

Notional expenditure

- 11.4.4 To disclose the full cost of their activities, entities will sometimes include in their accounts notional costs as well as those actually incurred. For charitable ALBs, notional costs may be included in the Statement of Financial Activities after 'Total resources expended' followed by a suggested new total of 'Total resources expended including notional costs'. Any notional costs will, however, also need to be reversed out within the Statement of Financial Activities. A suitable place for an additional heading dealing with the reversal is after the total 'Gains and losses on revaluation and disposals of investment assets' and before the total 'Net movement in funds'. Other ALBs might reverse the entry below the result for the year or in the General Reserve.
- 11.4.5 Notional costs should not be recorded for cost of capital, though actual costs will be charged in circumstances where the Treasury directs that it is appropriate. Where entities use cost of capital in management accounting or for setting fees and charges in accordance with the fees and charges guidance, these costs must be excluded from the accounts of the entity.
- 11.4.6 Notional insurance premiums will not be charged in the Statement of Comprehensive Net Expenditure. Instead, expenditure in connection with uninsured risks (for example, accident repairs or asset write-downs) will be charged as incurred. Entities expected to recover full costs in accordance with fees and charges policy may show in a note to the accounts the effect of charging notional premiums.

11.5 Apprenticeship Levy

- 11.5.2 The government introduced the Apprenticeship Levy from 1 April 2017. Payment of the levy is considered a form of taxation for ONS purposes, and entities should therefore account for the payment of the levy as a tax expense as part of staff costs.
- 11.5.3 Income received in an entity's Digital Apprenticeship Service (DAS) account is considered to be a government grant for accounting purposes as resources (the training services) are transferred to the entity in return for compliance with certain conditions (providing approved training to its employees). Such assistance should be recognised as grant income at the same point in time that an associated expense for training services is recognised, as per IAS 20.

Chapter 12 – Further guidance on pensions accounting

12.1 Introduction

- 12.1.1 This first section of this chapter deals with pensions accounting by employers, whether they are reporting entities or preparing the financial statements of reportable activities covered by this Manual. The second section deals with pensions accounting by the following public sector pension schemes:

Principal Civil Service Pension Scheme (PCSPS)	DFP Northern Ireland Superannuation and Other Allowances
Alpha Pension Scheme	HPSS Northern Ireland Superannuation Scheme
Armed Forces Pension Scheme (AFPS)	Police Service Northern Ireland Pension Scheme
NHS Superannuation Scheme	Northern Ireland Teachers' Superannuation Scheme
Teachers' Superannuation Scheme	Scottish NHS Superannuation Scheme
United Kingdom Atomic Energy Authority Superannuation Schemes	Scottish Teachers' Superannuation Scheme
Judicial Pension Scheme	Royal Mail Statutory Pension Scheme
Department for International Development – Overseas Superannuation Scheme	
Research Councils' Pension Scheme	

- 12.1.2 This chapter also considers the accounting treatment of termination benefits (also known as early departure costs or compensation payments) by the above public sector pension schemes for which there is no applicable financial reporting standard.

12.2 Accounting for termination benefits

- 12.2.1 The accounting treatment of termination benefits (also known as early departure costs or compensation payments) by employers is dealt with in IAS 19 as adapted and interpreted by this Manual (see Chapter.6).
- 12.2.2 For convenience, termination benefits are paid to the individuals concerned using the arrangements for paying pensions, with the amounts being recharged to employers. Ideally, separate statements for these transactions should be prepared, but, for historical reasons, it is appropriate to prepare statements showing both pension transactions and those relating to termination benefits. The following paragraphs describe the treatment of termination benefits in the accounts of the pension schemes, notwithstanding that IAS 26 does not address this issue. As the arrangements for paying termination benefits and their recovery from employers may differ from scheme to scheme, the following guidance is of a general nature and may need to be interpreted to reflect individual circumstances.
- 12.2.3 In some cases, the scheme acts purely as an agent, with individuals having recourse to their former employers in the case of default; in others, the scheme acts as principal. It is important for schemes to establish their status by reference to their governing statutes and regulations. This should be consistent with the accounting treatment of termination benefits by employers in accordance with IAS 19 as interpreted by this Manual.

Schemes acting as an agent

- 12.2.4 The Statement of Financial Position should recognise and measure only a current asset or liability being timing differences between amounts expected to be paid to former employees and their recovery from employers. It will not recognise either the total liability to former employees or the total amount recoverable from employers.
- 12.2.5 The Statement of Comprehensive Net Expenditure will show only any costs falling to the scheme such as differences between any amounts pre-funded and the offsetting liability.

Schemes acting as a principal

- 12.2.6 The Statement of Financial Position should recognise and measure:
- a) a provision representing the total future liability to former employees. Depending on the terms of the regulations relating to compensation payments, this provision may be incorporated into that for pensions but where it is not, the provision should be discounted at the general provision discount rate (not the pension discount rate); and
 - b) a sum representing the total amounts expected to be paid from employers where those amounts are recharged to employers on a regular basis.

Pre-funding the liability

- 12.2.7 Some schemes permit employers to pre-fund their liabilities either by means of a lump sum, or paying instalments over a short number of years.

Schemes which act as an agent

- 12.2.8 The instalments or lump sums should be shown separately in the statement of financial position as a long-term liability which is reduced as the amounts are paid to the employees. Where the instalments or lump sums received offset a greater value of liabilities, there will be a cost to the scheme that should be recognised in the Statement of Comprehensive Net Expenditure. Ideally, the cost should be allocated to individual years on an actuarially determined basis, but, in most cases, it will be sufficient to take the actual loss in the year – that is, the difference between the amounts pre-funded in respect of a given year and the payments made in respect of the respective individuals during the year.
- 12.2.9 Conversely, schemes will benefit if payments to individuals are lower than amounts pre-funded by employers, and will record this as a gain (on an actual basis) if the amounts are not refundable to employers or capable of being offset against other individuals.

Schemes which act as a principal

- 12.2.10 Amounts receivable from employers by way of a capitalised payment to discharge their liability are to be regarded as special pension scheme contributions in the Statement of Comprehensive Net Expenditure.
- 12.2.11 Amounts receivable from employers on an on-going basis are to be regarded as “other income” in the Statement of Comprehensive Net Expenditure.

12.3 Pensions accounting by the public sector pension schemes

- 12.3.1 IAS 26 applies, as adapted and interpreted, to the financial statements prepared by the unfunded pension schemes listed in paragraph 9.1.1.

Disclosures

- 12.3.2 Paragraph 18 of IAS 26 allows the present value of the expected payments by a retirement benefit plan to be calculated and reported using either current salary levels or projected salary levels. The pension schemes listed in paragraph 9.1.1 are to calculate and report the present value of the expected payments using projected salary levels; that is, the option of using current salary levels is not available.
- 12.3.3 Paragraph 17 of IAS 26 allows information concerning the actuarially determined present value of promised retirement benefits to be disclosed (a) as part of the statement of net assets, (b) by way of note, or (c) in a separate actuarial report which is attached to the accounts. The pension schemes listed in paragraph 9.1.1 are to disclose the actuarially determined present value of promised retirement benefits within the statement of financial position; that is, options (b) and (c) are not available.

Content of the financial statements

- 12.3.4 Although not addressed specifically in IAS 26, the financial statements prepared by pension schemes shall include (and see also the proforma *Magenta*):
- Report of the Scheme's Managers;
 - Report of the Scheme's Actuary;
 - Statement of the Accounting Officer's responsibilities;
 - Governance Statement;
 - Report of the Auditor;
 - Statement of Parliamentary Supply;
 - [Combined¹³]Statement of Comprehensive Net Expenditure;
 - [Combined] Statement of Financial Position;
 - [Combined] Statement of Changes in Taxpayers' Equity;
 - [Combined] Statement of Cash Flows; and
 - Supporting notes.

Additional voluntary contributions (AVCs)

- 12.3.5 AVCs are amounts deducted from employees' salaries and paid over directly by employers to approved AVC providers. They do not include employees' normal contributions in respect of the purchase of added years.
- 12.3.6 AVC transactions should be included in the financial statements of the pension schemes by way of note showing:
- the value of the AVC investments at the beginning of the year;
 - amounts paid to the AVC providers during the year;
 - the investments purchased by the AVC providers;
 - the value of sales of investments to provide pension benefits;
 - the changes in the market value of investments;
 - the value of the AVC investments at the end of the year; and
 - the existence (if any) of any guarantee given by the scheme.
- 12.3.7 If the AVC arrangements include life assurance cover, the note should also show the contributions received to provide life cover, and the benefits paid on death.

¹³ These statements are described as "Combined" if the statement reflects transactions relating to both pensions and early departure costs.

13 Whole of Government Accounts

13.1 Introduction

- 13.1.1 The Treasury prepares Whole of Government Accounts (WGA) for the whole of the UK public sector (central government, local government and public corporations) under section 9 of the Government Resources and Accounts Act 2000. WGA is prepared under generally accepted accounting practice as defined in chapter 2 of this Manual.
- 13.1.2 This chapter considers the specific accounting and disclosure requirements adopted in the consolidated WGA as compared with the requirements for the financial statements of the reporting entities and reportable activities covered by the rest of this Manual.

13.2 Adaptations and Interpretations applied to Whole of Government Accounts

- 13.2.1 This section summarises the applicability of accounting standards to WGA. Changes to adaptations and interpretations of standards from those detailed in Chapter 6 that apply to WGA are explained in the paragraphs below.

IFRS 8 Operating segments

- 13.2.2 IFRS 8 is interpreted for WGA in the following ways:
- a) the requirement to report separately information about each operating segment will be met by following the sub-sector classification (central government, local government and public corporations) used by the Office for National Statistics in the National Accounts prepared under the European System of Accounts (ESA 10). Parts of entities classified in the National Accounts to a different sector from the classification of the main part of the entity should be classified with the main part of the entity;
 - b) the requirement to report information about profit and loss for each reportable segment will be met by reporting taxation revenues, other revenue, expenditure on public services, net expenditure on public services, financing costs of long term liabilities, net expenditure/(revenue) for the year within the reportable segments identified in a) above;
 - c) the requirement to report information about assets and liabilities for each reportable segment will be met by reporting total non-current assets, total current assets, total current liabilities, long-term borrowings, long-term provisions (excluding pensions provisions), other non-current liabilities, pensions, provisions and the total net assets/(liabilities) at the statement of financial position date within the reportable segments identified in a) above;
 - d) the information defined in b) and c) above shall be reported, for each reportable segment, after the elimination of all transaction streams and balances internal to that segment. Consolidation adjustments for transaction streams and balances between segments shall be removed from each column to show the net contribution by sector; and
 - e) no information needs to be given about products or services, geographical areas or major customers.

IFRS 10 Consolidated Financial Statements

- 13.2.3 IFRS 10 is adapted for WGA in the following ways:

- a) these accounts are drawn up for the purposes of Government and Parliament as a whole and not as a requirement of any individual entity. No one body appears to have the ability to control all of the bodies within the consolidation, and as a consequence, for the purposes of WGA, no parent company will be disclosed in the statements and notes, only the position of the consolidated bodies;
- b) the requirement to include all investees (subsidiaries) of the investor (parent) is adapted in order that WGA shall conform to the statutory requirement in the Government Resources and Accounts Act 2000 that WGA comprise a consolidation of those bodies that appear to HM Treasury to exercise functions of a public nature or are entirely or substantially funded from public money. This will be based on the national accounts classification of bodies to the public sector, as independently determined by the Office of National Statistics at the reporting date. This does not affect the right of the Comptroller and Auditor General to form a different opinion about the classification of any body, and therefore their inclusion within WGA; and
- c) the requirement to eliminate in full income tax, National Insurance Contributions and Value Added Tax balances and transactions between consolidated entities and Her Majesty's Revenue and Customs, and non-domestic rates payable by consolidated entities to local authorities, is adapted to exclude the elimination of input Value Added Tax on goods and services acquired by consolidating entities for either revenue or capital purposes.

IAS 10 Events after the Reporting Period

- 13.2.4 The interpretation of IAS 10 required for annual accounts is not required for WGA, except that, the requirement that the financial statements be adjusted for events that provide evidence of conditions that existed at the reporting period will not apply. These events will be disclosed in line with non-adjusting events.

IAS 16 Property, plant and equipment

- 13.2.5 IAS 16 is adapted and interpreted for WGA in the same way that it is adapted for the financial statements of reporting entities covered by this Manual, other than in regards to highways infrastructure assets held by local authorities which are recognised at historical cost and the detailed disclosure requirements in IAS 16 paragraphs 74(a) and 77 and FReM paragraph 7.1.6 which shall not apply to WGA.

IAS 19 Employee benefits

- 13.2.6 In accounting for public service pension liabilities, WGA follows the requirements of IAS 19. IAS 19 is interpreted and adapted for WGA in the following ways:
- a) WGA shall recognise the liabilities of funded and unfunded pension schemes for which the public sector is responsible, whether originally recognised in employer or pension scheme accounts;
 - b) the requirements of IAS 19 shall be interpreted to mean that the period between formal valuations shall be that required by the governance arrangements for the relevant schemes; and
 - c) schemes and employers recognising pension liabilities shall apply the actuarial assumptions, including discount rates most suited to the scheme or, where specific requirements apply, the required assumptions. The financial statements shall disclose the range of assumptions included in WGA but the requirement to include a sensitivity analysis for each significant actuarial assumption as of the end of the reporting period is not required.

IAS 24 Related party disclosures

- 13.2.7 IAS 24 is adapted for WGA in the following ways:
- a) related parties are deemed to comprise any public sector entity that is not consolidated into WGA; and

- b) WGA shall provide a note of transactions with those related parties.

IFRS 9 Financial instruments

- 13.2.8 IFRS 9 is interpreted for WGA in the same way that is interpreted for the financial statements of reporting entities covered by this Manual, with the exception that all public sector financial instruments shall be consolidated into WGA and shall not be included in a separate Trust Statement.

13.3 Other reporting requirements

Revenue from taxes and duties

- 13.3.1 WGA shall consolidate the financial statements of the revenues from taxes and duties, and shall not include them in a separate Trust Statement as defined in Chapter 8. It shall be prepared in accordance with the requirements of this Manual, with the exception that revenue collected as an agent of the European Union shall be excluded. WGA shall also consolidate Council Tax and Non-Domestic Rate revenues recognised in local authority collection funds.
- 13.3.2 Levies reported as income in the financial statements of consolidated entities but which are classified as taxes by the Office for National Statistics shall be reported as taxes in WGA. Such levies include, but are not restricted to, the BBC licence fee, sugar levies, fines collected by financial regulators and levies collected by non-departmental public bodies that exist to promote British produce.
- 13.3.3 Revenues collected on behalf of the European Union that should be excluded from the consolidation comprise Traditional Own Resources (customs duties including those on agricultural products collected by Her Majesty's Revenue and Customs, and sugar levies collected by the Department for Environment, Food and Rural Affairs) and the Third Resource (VAT, which is the product of the application of a uniform rate to a harmonised expenditure base). Monies retained as reimbursement of collection costs in respect of Traditional Own Resources shall be accounted for as other operating income.

Monetary gold and IMF Special Drawing Rights

- 13.3.4 The UK Government's holdings of gold are valued at the sterling equivalent of the London Bullion Market Association dollar denominated spot price as at the Statement of Financial Position date. Revaluation gains and losses on gold assets are recognised within fair value changes of gold in the Statement of Comprehensive Income and Expenditure.
- 13.3.5 Special Drawing Rights (SDR) are an international reserve asset created by the International Monetary Fund (IMF), representing member governments' rights within the international monetary system. The UK Government's SDR shall be recognised on the WGA statement of financial position in sterling, converted at the SDR exchange rate, published by the IMF, as at the statement of financial position date. Any income receivable in SDR shall be recognised in interest income at the exchange rate prevailing on the date of receipt.

Companies Act 2006

- 13.3.6 The requirements of Part 15 (Accounts and reports) of the Companies Act 2006 as applied in Chapter 5 of this Manual shall not apply to Whole of Government Accounts. Additional reporting requirements set out in paragraphs 5.3.1-10 of the FReM shall not apply to the Whole of Government Accounts

Commentary accompanying Whole of Government Accounts

- 13.3.7 The Treasury shall prepare commentary to accompany WGA that includes the following information:

- a) a statement that detailed information about the underlying activities and governance arrangements of the public sector can be obtained from the individual accounts consolidated into WGA;
- b) a clear and concise discussion of WGA, which should include:
- an overview section that provides a summary of significant events affecting the financial statements;
 - an analysis of significant risks and uncertainties inherent in the government's financial position and a reference to the strategies and policies adopted to manage those risks and uncertainties (which might be a cross-reference to other published documents);
 - an analysis of the reasons for underlying variations between financial performance and the financial position between reporting periods (with the exception of the first year of publication, when the analysis shall be restricted only to the variations in financial position); and
 - information about any significant trends related to financial assets and liabilities, revenues and expenditure, and cash flows associated with long-term provisions.

The Statement of Accounting Officer's responsibilities

- 13.3.8 The Treasury's WGA Accounting Officer shall prepare a Statement of Accounting Officer's responsibilities in respect of WGA, in a form to be agreed by HM Treasury, including a statement of overall responsibility for producing WGA, which must give a true and fair view of the state of affairs of the Government at the Statement of Financial Position date and statement of cash flows for the financial year.

The Governance Statement

- 13.3.9 The Treasury's WGA Accounting Officer shall prepare a Governance Statement in relation to the preparation of WGA in a form to be agreed by HM Treasury. The Governance Statement shall include information about the arrangements in place to assure the quality of the financial and other information included in WGA, including the role of Internal Audit.
- 13.3.10 The Governance Statement shall include information about the relationship between the Treasury's WGA Accounting Officer and officials appointed by the Treasury to assist in the preparation of the consolidation information (including the relevant accounting and disclosure requirements and all relevant consolidation adjustments).

13.4 Audit and publication

- 13.4.1 The Comptroller and Auditor General will examine the accounts to satisfy himself that they present a true and fair view, consistent with the guidance in the FReM.
- 13.4.2 Treasury shall lay accounts and reports before the House of Commons in accordance with an order under section 11(6) of the Government Resources and Accounts Act 2000 which specifies the dates by which the audit must be completed and the report and accounts laid.
- 13.4.3 A governance body will review the accounts.

ANNEX 1

Statement of Outturn against Parliamentary Supply illustrative disclosures

In order to ensure consistency and clarity in SoPS disclosures, mandatory boilerplate text has been developed to explain the role of the SoPS.

The following text must be included as part of the SoPS disclosures:

In addition to the primary statements prepared under IFRS, the Government Financial Reporting Manual (FReM) requires [the entity] to prepare a Statement of Outturn against Parliamentary Supply (SOPS) and supporting notes.

The SOPS and related notes are subject to audit, as detailed in the Certificate and Report of the Comptroller and Auditor General to the House of Commons.

The SOPS is a key accountability statement that shows, in detail, how an entity has spent against their Supply Estimate. Supply is the monetary provision (for resource and capital purposes) and cash (drawn primarily from the Consolidated fund), that Parliament gives statutory authority for entities to utilise. The Estimate details supply and is voted on by Parliament at the start of the financial year.

Should an entity exceed the limits set by their Supply Estimate, called control limits, their accounts will receive a qualified opinion.

The format of the SOPS mirrors the Supply Estimates, published on gov.uk, to enable comparability between what Parliament approves and the final outturn.

The SOPS contain a summary table, detailing performance against the control limits that Parliament have voted on, cash spent (budgets are compiled on an accruals basis and so outturn won't exactly tie to cash spent) and administration.

The supporting notes detail the following: Outturn by Estimate line, providing a more detailed breakdown (note 1); a reconciliation of outturn to net operating expenditure in the SOCNE, to tie the SOPS to the financial statements (note 2); a reconciliation of outturn to net cash requirement (note 3); and, an analysis of amounts and cash to be repaid to the Consolidated Fund (note 4).

Preparers must either explain the budgeting framework here, for example through a flow of funds diagram, or link to where this has been provided in the performance report (as noted in the FReM, XX). Example text is as follows:

The SOPS and Estimates are compiled against the budgeting framework, which is similar to, but different to, IFRS. An understanding of the budgeting framework and an explanation of key terms is provided on page XX, in the financial review section of the performance report. Further information on the Public Spending Framework and the reasons why budgeting rules are different to IFRS can also be found in chapter 1 of the Consolidated Budgeting Guidance, available on gov.uk.

In addition, preparers should reference users to the discussion of financial performance in the Performance Report, where this requirement has been complied with. Where this requirement has not been complied with, commentary on outturn against estimate variances must instead be provided in the SOPS. Example text is as follows:

The SOPS provides a detailed view of financial performance, in a form that is voted on and recognised by Parliament. The financial review, in the Performance Report, provides

|
a summarised discussion of outturn against estimate and functions as an introduction to the SOPS disclosures.

Where the department has an Excess Vote for one of the reasons given in the 'Supply Estimates Manual', 'Managing Public Money' or 'Managing Public Money Northern Ireland' (as appropriate) the department should insert this note and provide an understanding of why the Excess was incurred and how this has affected performance, if not already provided elsewhere:

The Department has incurred an Excess of [insert amount] because [insert reason]. The Department will seek parliamentary approval by way of an Excess Vote in the next Supply and Appropriation Act [Budget Act in Northern Ireland].

consultation draft



Summary tables – mirrors part 1 of the Estimates

Summary table, 20XX - XX, all figures presented in £000's

Type of spend	SoPS note	Outturn			Estimate			Outturn vs Estimate, saving/(excess)		Prior Year Outturn Total, 20XX - XX
		Voted	Non-Voted	Total	Voted	Non-Voted	Total	Voted	Total	
Departmental Expenditure Limit										
Resource	1.1	18	6	24	18	8	26	-	2	1
Capital	1.2	9	3	12	9	3	12	-	-	1
Total		27	9	36	27	11	38	-	2	2
Annually Managed Expenditure										
Resource	1.1	18	6	24	18	5	23	-	(1)	1
Capital	1.2	9	3	12	9	3	12	-	-	1
Total		27	9	36	27	8	35	-	(1)	2
Total Budget										
Resource	1.1	36	12	48	36	13	49	-	1	2
Capital	1.2	18	6	24	18	6	24	-	-	2
Total Budget Expenditure		54	18	72	54	19	73	-	1	4
Non-Budget Expenditure	1.1			-			-	-	-	1
Total Budget and Non budget		54	18	72	54	19	73	-	1	5

Text to include: *Figures in the areas outlined in thick line cover the voted control limits voted by Parliament. Refer to the Supply Estimates guidance manual, available on gov.uk, for detail on the control limits voted by Parliament.*

Net Cash requirement 20XX - XX, all figures presented in £000's

Item	SoPS note	Outturn	Estimate	Outturn vs Estimate, saving/(excess)	Prior Year Outturn Total, 20XX - XX
Net Cash requirement	3	64	68	4	60

Administration costs 20XX - XX, all figures presented in £000's

Type of spend	SoPS note	Outturn	Estimate	Outturn vs Estimate, saving/(excess)	Prior Year Outturn Total, 20XX - XX
Administration costs	1.1	24	25	1	20

Text to include: *Although not a separate voted limit, any breach of the administration budget will also result in an excess vote.*

Where the department has a reportable Prior Period Adjustment, the department should insert the following text: *The Department has Prior Period Adjustments (PPAs) resulting from [insert reason]. It is proper for the department to seek parliamentary authority for the provision that should have been sought previously. In 20XX-XX, the following such PPAs have been made, which have been included within voted Supply in the Estimate.*

PPA Description	Resource/ Capital	DEL/AME	Amount/ £000

Guidance on PPAs and what they are is included in the Consolidated budgeting guidance. Preparers should note **XX.XX.XX – XX.XX.XX** in the FReM and include any commentary as relevant.

Notes to the Statement of Parliamentary Supply, 20XX – XX (£000's)

SOPS note 1. Outturn detail, by Estimate Line

SOPS1.1 Analysis of resource outturn by Estimate line

Type of spend (Resource)	Resource outturn							Estimate			Outturn vs Estimate, saving/ (excess)	Prior Year Outturn Total, 20XX - XX
	Administration			Programme			Total	Total	Virements	Total inc. virements		
	Gross	Income	Net	Gross	Income	Net						
Spending in Departmental Expenditure Limits (DEL)												
Voted expenditure												
A - Estimate line 1	1	2	3	1	2	3	6	5	1	6	-	6
B - Estimate line 2	1	2	3	1	2	3	6	7	(1)	6	-	6
C - Estimate line 3	1	2	3	1	2	3	6	6		6	-	6
Total voted DEL	3	6	9	3	6	9	18	18	-	18	-	18
Non-voted expenditure												
D - Estimate line 4	1	2	3	1	2	3	6	3	5	8	2	1
Total non-voted DEL	1	2	3	1	2	3	6	3	5	8	2	1
Total spending in DEL	4	8	12	4	8	12	24	21	5	26	2	19
Spending in Annually Managed Expenditure (AME)												
Voted expenditure												
A - Estimate line 1	1	2	3	1	2	3	6	5	1	6	-	6
B - Estimate line 2	1	2	3	1	2	3	6	7	(1)	6	-	6
C - Estimate line 3	1	2	3	1	2	3	6	6		6	-	6
Total voted AME	3	6	9	3	6	9	18	18	-	18	-	18
Non-voted expenditure												
E - Estimate line 4	1	2	3	1	2	3	6	3	2	5	(1)	1
Total non-voted AME	1	2	3	1	2	3	6	3	2	5	(1)	1
Total spending in AME	4	8	12	4	8	12	24	21	2	23	(1)	19
Total resource	8	16	24	8	16	24	48	42	7	49	1	38

SOPS1.2 Analysis of capital outturn by Estimate line

Type of spend (Capital)	Outturn			Estimate			Outturn vs Estimate, saving/ (excess)	Prior Year Outturn Total, 20XX - XX
	Gross	Income	Net total	Total	Virements	Total inc. virements		
Spending in Departmental Expenditure Limits (DEL)								
Voted expenditure								
A - Estimate line 1	1	2	3	1	2	3	-	6
B - Estimate line 2	1	2	3	1	2	3	-	6
C - Estimate line 3	1	2	3	1	2	3	-	6
Total voted DEL	3	6	9	3	6	9	-	18
Non-voted expenditure								
D - Estimate line 4	1	2	3	1	2	3	-	1
Total non-voted DEL	1	2	3	1	2	3	-	1
Total spending in DEL	4	8	12	4	8	12	-	19
Spending in Annually Managed Expenditure (AME)								
Voted expenditure								
A - Estimate line 1	1	2	3	1	2	3	-	6
B - Estimate line 2	1	2	3	1	2	3	-	6
C - Estimate line 3	1	2	3	1	2	3	-	6
Total voted AME	3	6	9	3	6	9	-	18
Non-voted expenditure								
E - Estimate line 4	1	2	3	1	2	3	-	1
Total non-voted AME	1	2	3	1	2	3	-	1
Total spending in AME	4	8	12	4	8	12	-	19
Total capital	8	16	24	8	16	24	-	38

Text to include: *The total Estimate columns include virements. Virements are the reallocation of provision in the Estimates that do not require parliamentary authority (because Parliament does not vote to that level of detail and delegates to HM Treasury). Further information on virements are provided in the Supplementary Estimates Manual, available on gov.uk.*

|

The outturn vs estimate column is based on the total including virements. The estimate total before virements have been made is included so that users can tie the estimate back to the Estimates laid before Parliament.

consultation draft

SOPS note 2. Reconciliation of outturn to net operating expenditure

Item	Reference	Outturn total	Prior Year Outturn Total, 20XX - XX
Total Resource outturn	SOPS 1.1	48	38
Add: Capital grants		5	4
Other (provide details e.g. PFI adjustments)		5	4
Total		10	8
Less: Income payable to the Consolidated Fund	SOPS 4.1	(4)	(3)
Other (provide details e.g. PFI adjustments)		(3)	(2)
Total		(7)	(5)
Net Operating Expenditure in Consolidated Statement of Comprehensive Net Expenditure	Page XX	51	41

Text to include: As noted in the introduction to the SOPS above, outturn and the Estimates are compiled against the budgeting framework, which is similar to, but different to, IFRS. Therefore, this reconciliation bridges the resource outturn to net operating expenditure, linking the SOPS to the financial statements.

Reconciling items must be explained, if not already explained elsewhere, with reference to where and why budgeting rules diverge from IFRS. For example: *Capital grants are budgeted for as CDEL, but accounted for as spend on the face of the SOCNE, and therefore function as a reconciling item between Resource and Net Operating Expenditure. £Xm of capital grants were issued to X for the purposes of Y...*

If the total resource outturn in the SOPS is the same as net operating expenditure in the SoCNE, no reconciliation is required and a written statement can instead be included stating this is the case.

SOPS3. Reconciliation of Net Resource Outturn to Net Cash Requirement

Item	Reference	Outturn total	Estimate	Outturn vs Estimate, saving/ (excess)
Total Resource outturn	SOPS 1.1	48	49	1
Total Capital outturn	SOPS 1.2	24	24	-
Accruals to cash adjustments:				
<i>Adjustments for ALBs:</i>				
Remove voted resource and capital		(3)	(3)	-
Add cash grant-in-aid		3	4	1
<i>Adjustments to remove non-cash items:</i>				
Depreciation		(5)	(4)	1
New provisions and adjustments to previous provisions		(4)	(2)	2
Departmental Unallocated Provision		-	-	-
Supported capital expenditure (revenue)		-	-	-
Prior period adjustments		-	-	-
Other non-cash items		1	2	1
<i>Adjustments to reflect movements in working balances:</i>				
Increase/(decrease) in inventories		-	-	-
Increase/(decrease) in receivables		-	-	-
Increase/(decrease) in payables		2	(1)	(3)
Use of provisions		2	2	-
Total		(4)	(2)	2
Removal of non-voted budget items:				
Consolidated Fund Standing Services		(4)	(3)	1
Other adjustments		-	-	-
Total		(4)	(3)	1
Net cash requirement		64	68	4

Text to include: *As noted in the introduction to the SOPS above, outturn and the Estimates are compiled against the budgeting framework, not on a cash basis. Therefore, this reconciliation bridges the resource and capital outturn to the net cash requirement.*

Commentary explaining reconciling items may be included if preparers believe it will be of use to users. Preparers may also find it useful to indicate how the NCR ties to the cash flow in the financial statements too (although the cash flow includes funding from the Consolidated Fund (Supply) and so usually won't immediately reconcile to NCR

Departments are not required to show rows where all amounts are nil.

SOPS4. Amounts due to the Consolidated Fund

SOPS4.1 Analysis of amounts due to the Consolidated Fund

Item	Reference	Outturn total		Prior Year Outturn Total, 20XX - XX	
		Accruals basis	Cash basis	Accruals basis	Cash basis
Income due to the Consolidated Fund	SOPS 2	1	2	1	1
Remaining excess cash surrenderable to the Consolidated Fund		1	1	1	1
Total amount payable to the Consolidated Fund	SOCTE	2	3	2	2

Should no income and/or excess cash be payable to the Consolidated Fund as at year end, the note and explanatory text, below, can be adjusted as is reasonable (but a short note should state that either no income or excess cash is payable and the reasons for this).

Text to include: *This note shows excess cash that is payable to the Consolidated Fund as at year end. The disclosure splits the total payable to the Consolidated fund by a) income received that is either outside the ambit of the Estimate or which cannot be retained as it outside their settlement limit and b) other excess cash that has not been spent and which must be returned to the Consolidated Fund.*

Income can be included as part of the Estimate (detailed in note 1) and used to fund expenditure. However, where the type of income is not one which an entity can retain (i.e. if it is not included in its ambit as part of the Estimate) or where income received exceeds settlement limits (or the amount of income an entity can retain to offset spend), then the income is payable to the Consolidated fund.

Income due to the Consolidated Fund is therefore, shown as a reconciling item in SOPS note 2. The total due to the CFER's payable to the Consolidated Fund disclosed as part of the Statement of Changes in Taxpayers' Equity (SOCTE) in the Financial Statements.

The disclosure shows cash payable both on an accruals basis and on a cash basis (which may differ, given budgets are compiled on an accruals basis and not a cash basis).

The below statement should be included where separate trust statements are published for the department: *Consolidated Fund income shown in note 4.1 above only includes any amounts collected by the department where it was acting as the principle, rather than agent of the Consolidated Fund. Full details of income collected as agent for the Consolidated Fund are in the department's Trust Statements published separately from but alongside these financial statements.*

SOPS4.2 Consolidated Fund Income

Where the department collects income as an agent of the Consolidated Fund and doesn't prepare a Trust statement, disclosure should be made in the note in the format below: *Consolidated Fund income shown in note 4.1 above does not include any amounts collected by the department where it was acting as agent for the Consolidated Fund rather than as principal. The amounts collected as agent for the Consolidated Fund (which are otherwise excluded from these financial statements) were:*

Item	Outturn total	Prior Year Outturn Total, 20XX - XX
Taxes and licence fees	1	1
Fines and penalties	2	2
Other Income	1	1
Less:		
Costs of collection - where deductible	(2)	(2)
Uncollectible debts	(1)	(1)
Amount payable to the Consolidated Fund	1	1
Balance held at the start of the year	1	1
Payments into the Consolidated Fund	-	(1)
Balance held on trust at the end of the year	2	1

A description of the main income streams should be included together with any other explanations that may be necessary to provide a full understanding of the reported transactions

Statement of Accounting Officer's responsibilities

Introduction

This Annex contains three model Statements of Accounting Officer's Responsibilities. The first is for an entity with a single Accounting Officer the second for a government department with a principal Accounting Officer and one or more additional Accounting Officers and the third for a government department which prepares consolidated resource accounts that include NDPBs or other central government bodies. This third statement also provides for additional Accounting Officers, but can be adapted if there are none. The precise wording of the statements may be adapted, in agreement with the relevant authority and the auditor, to meet an entity's circumstances.

Model Statement of Accounting Officer's responsibilities for an entity with a single Accounting Officer

Under the [name of relevant Act], the [name of relevant authority – or Secretary of State (with the consent of the relevant authority)] has directed [name of entity] to prepare for each financial year [resource accounts detailing the resources acquired, held or disposed of during the year and the use of resources by the department during the year] [a statement of accounts in the form and on the basis set out in the Accounts Direction]*. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of [name of entity] and of its income and expenditure, Statement of Financial Position and cash flows for the financial year.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the *Government Financial Reporting Manual* and in particular to:

observe the Accounts Direction issued by [name of relevant authority as above], including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;

make judgements and estimates on a reasonable basis;

state whether applicable accounting standards as set out in the *Government Financial Reporting Manual* have been followed, and disclose and explain any material departures in the [accounts] [financial statements]*;

prepare the [accounts] [financial statements] on a going concern basis; and

confirm that the Annual Report and Accounts as a whole is fair, balanced and understandable and take personal responsibility for the Annual Report and Accounts and the judgements required for determining that it is fair, balanced and understandable.

The [relevant authority] has appointed [Accounting Officer of [name of sponsoring department] has designated] [the Permanent Head of the Department] [the Chief Executive] as Accounting Officer of [name of entity]. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the [name of entity]'s assets, are set out in *Managing Public Money* published by the HM Treasury.

As the Accounting Officer, I have taken all the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that [name of entity's] auditors are aware

* Delete as appropriate.

|

of that information. So far as I am aware, there is no relevant audit information of which the auditors are unaware.

consultation draft

Model Statement of Accounting Officer's responsibilities for a government department with a principal Accounting Officer and one or more additional Accounting Officers

Under the Government Resources and Accounts Act 2000, HM Treasury has directed [name of department] to prepare, for each financial year, resource accounts detailing the resources acquired, held or disposed of during the year and the use of resources by the department during the year. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the department and of its income and expenditure, Statement of Financial Position and cash flows for the financial year.

In preparing the accounts, the principal Accounting Officer is required to comply with the requirements of the *Government Financial Reporting Manual* and in particular to:

observe the Accounts Direction issued by the Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;

make judgements and estimates on a reasonable basis;

state whether applicable accounting standards as set out in the *Government Financial Reporting Manual* have been followed, and disclose and explain any material departures in the accounts;

prepare the [accounts] on a going concern basis; and

confirm that the Annual Report and Accounts as a whole is fair, balanced and understandable and take personal responsibility for the Annual Report and Accounts and the judgements required for determining that it is fair, balanced and understandable.

HM Treasury has appointed the Permanent Head of the Department as principal Accounting Officer of the department. In addition, HM Treasury has appointed [an] additional Accounting Officer[s] to be accountable for [that part] [those parts] of the department's accounts relating to [a] specified request[s] for resources and the associated assets, liabilities and cash flows. [This appointment does] [These appointments do] not detract from the Head of Department's overall responsibility as Accounting Officer for the department's accounts.

The allocation of Accounting Officer responsibilities in the department is as follows:

Estimate section A: [name and title of Accounting Officer]

Estimate section B: [name and title of Accounting Officer]

etc.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the [name of entity]'s assets, are set out in *Managing Public Money* published by HM Treasury.

As the Accounting Officer, I have taken all the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that [name of entity's] auditors are aware of that information. So far as I am aware, there is no relevant audit information of which the auditors are unaware.

Model Statement of Accounting Officer's responsibilities for a government department preparing consolidated resource accounts that include NDPBs [and other arm's length bodies]

Under the Government Resources and Accounts Act 2000 (the GRAA), HM Treasury has directed [name of department] to prepare, for each financial year, consolidated resource accounts detailing the resources acquired, held or disposed of, and the use of resources, during the year by the department (inclusive of its executive agencies) and its sponsored non-departmental [and other arm's length] public bodies designated by order made under the GRAA by Statutory Instrument 20XX no XXXX (together known as the 'departmental group', consisting of the department and sponsored bodies listed at note xx to the accounts). The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the department and the departmental group and of the income and expenditure, Statement of Financial Position and cash flows of the departmental group for the financial year.

In preparing the accounts, the Accounting Officer of the Department is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

- observe the Accounts Direction issued by the Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- ensure that the department has in place appropriate and reliable systems and procedures to carry out the consolidation process;
- make judgements and estimates on a reasonable basis, including those judgements involved in consolidating the accounting information provided by non-departmental [and other arm's length] public bodies;
- state whether applicable accounting standards as set out in the *Government Financial Reporting Manual* have been followed, and disclose and explain any material departures in the accounts;
- prepare the accounts on a going concern basis; and
- confirm that the Annual Report and Accounts as a whole is fair, balanced and understandable and take personal responsibility for the Annual Report and Accounts and the judgements required for determining that it is fair, balanced and understandable.

HM Treasury has appointed the Permanent Head of the department as Accounting Officer of the [Name of the department]. In addition, HM Treasury has appointed [an] additional Accounting Officer[s] to be accountable for [that part] [those parts] of the department's accounts relating to [a] specified Estimate section[s] and the associated assets, liabilities and cash flows. [This appointment does] [These appointments do] not detract from the Head of Department's overall responsibility as Accounting Officer for the department's accounts.

The allocation of Accounting Officer responsibilities in the department is as follows:

Estimate section A: [name and title of Accounting Officer]
Estimate section B: [name and title of Accounting Officer]
etc.

The Accounting Officer of the department has also appointed the Chief Executives [or equivalents] of its sponsored non-departmental [and other arm's length] public bodies as Accounting Officers of those bodies. The Accounting Officer of the department is responsible for ensuring that appropriate systems and controls are in place to ensure that any grants that the department makes

to its sponsored bodies are applied for the purposes intended and that such expenditure and the other income and expenditure of the sponsored bodies are properly accounted for, for the purposes of consolidation within the resource accounts. Under their terms of appointment, the Accounting Officers of the sponsored bodies are accountable for the use, including the regularity and propriety, of the grants received and the other income and expenditure of the sponsored bodies.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the assets of the department or non-departmental *[or other arm's length]* public body for which the Accounting Officer is responsible, are set out in *Managing Public Money* published by HM Treasury.

As the Accounting Officer, I have taken all the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that [name of entity's] auditors are aware of that information. So far as I am aware, there is no relevant audit information of which the auditors are unaware.

Consultation draft

ANNEX 3

Note on related party disclosures

This annex suggests forms of words that might be used by entities to which the interpretations of IAS 24 apply.

[Name of body] is a [category of body: for example, executive agency] of [name of department] [Name of department] is regarded as a related party. During the year, [name of body] has had [a (significant) number of / various] material transactions with the Department and with other entities for which the Department is regarded as the parent Department, viz:

[list of main other agencies, trading funds, non-departmental public bodies and other bodies sponsored by or the responsibility of the parent Department.]

or

The Department is the parent of the agencies [and other bodies, if appropriate] shown in note x and sponsor of the non-departmental public bodies shown in note x. These bodies are regarded as related parties with which the Department has had various material transactions during the year.

and

In addition, [name of body] has had a [small number of] [various material] transactions with other government departments and other central government bodies. Most of these transactions have been with [name of main entities].

and

either: During the year, no [Minister], Board member, key manager or other related parties has undertaken any material transactions with [name of body] during the year.

or: During the year [name of body] entered into the following material transactions with [give name and type of related party (for example, Minister, Board member etc.) and details of the transactions].

ANNEX 4

Differences between budgets and accounts

As a result of the implementation of the Treasury's Alignment project in 2011-12 most differences between Resource accounts and budgets have now been removed. The majority of transactions should therefore be recorded in budgets at the same value and with the same timing as in accounts. There are however some outstanding misalignments, these are set out in the tables below. Treasury will continue to try and minimise the differences between budgets and accounts consistent with the principles of alignment.

Table 1: The main differences between the Statement of Comprehensive Net Expenditure (SoCNE) and resource budgets

Departments' own spending	The SoCNE includes capital grants; these score in capital budgets
	The SoCNE score the creation of provisions. The release and payment are both movements on the Statement of Financial Position. In budgets, the creation and release score to AME whereas the payment scores to DEL.
Departments' income	Equity withdrawals from public corporations may score in the SoCNE if they are treated as special dividends and would in all cases score in capital budgets.
	Income that is classified as a capital grant, such as a donation that is to be used to finance acquisition of a capital asset, scores in the capital budget.
Support for local authorities	Capital grants to local authorities score in the SoCNE and in capital budgets
Public Corporations	Capital grants to public corporations score in the SoCNE and in capital budgets for public corporations on the external finance basis.
	Equity withdrawals from public corporations may score in the SoCNE as special dividends and will in all cases score in capital budgets for public corporations on the external finance basis.
PFI	PFI contracts recorded as service concessions in accounts will be recorded in budgets on the basis National Accounts (ESA 10) standards, which may lead to a different balance sheet treatment of the asset. Departments should ensure that they appropriate budgetary cover before entering into PFI transactions.
Research and Development	Research and development expenditure that meets the criteria under the National Accounts are recorded as capital in budgets. This may differ to the treatment in resource accounts where research expenditure is usually expensed in the SoCNE and development expenditure is capitalised in accordance with IAS 38 <i>Intangible Assets</i> as adapted in the FReM.

Table 2: The main differences between the capital budget and resource account entries for total net additions to non-current assets and investments

Departments' own spending	Capital budgets include capital grants; these score in the resource account SoCNE
	In a limited range of cases, purchase and disposal of stocks scores in capital budget, but are not transactions in non-current assets in the resource account, which treats the transaction as dealing in current assets.
Departments' income	Income that counts as capital transfers in the national accounts, such as a donation to finance construction of an asset, passes through capital budgets.
	There are limits on the quantum of income from the sale of assets that departments may keep in their budgets.
Support for Local Authorities	Capital grants to local authorities score in the SoCNE and in capital budgets
	Capital budgets include supported capital expenditure (revenue) which does not feature in resource accounts
Public Corporations	Capital grants to public corporations score in the SoCNE and in capital budgets
	Budgets for public corporations include public corporation market and overseas borrowing which is not included in resource accounts
	If a trading fund that is a department in its own right borrows from the National Loans Fund the "parent" department for budgeting purposes will show no accounting entry. However, its budget will show borrowing net of repayments
	Equity withdrawals from public corporations may score in the SoCNE as special dividends and will always score in capital budgets for public corporations on the external finance basis.
Service Concessions	Service concession arrangements which are subject to IFRIC 12 in accounts, are measured according to ESA 10 standards set out in the Manual on Government Deficit and Debt
Research and Development	Research and development expenditure that meets the criteria under the National Accounts are recorded as capital in budgets. This may differ to the treatment in resource accounts where research expenditure is usually expensed in the SoCNE and development expenditure is capitalised in accordance with IAS 38 <i>Intangible Assets</i> as adapted by the FRM.

Links to relevant guidance and resources

Illustrative financial statements are published alongside the FReM each year, and other supporting material may be included if relevant.

<https://www.gov.uk/government/collections/government-financial-reporting-manual-frem>

Resources for better narrative reporting include:

[The government financial reporting review](#) includes:

- (a) a perspective on the history and purpose of government financial reporting;
- (b) a collection of best practice examples with a particular focus on performance reporting; and
- (c) a map of the public sector financial reporting landscape.

The National Audit Office co-sponsor the Building Public Trust awards for excellence in public sector financial reporting. [Best practice guidance](#) based on the 2017-18 awards sets out the NAO's criteria for a good annual report, and shows how different bodies met them.

In 2017 the Financial Reporting Council (FRC) [published a report](#) on private sector best practice in risk and viability disclosures. Its recommendations give insights into reporting on sensitive issues, and meeting user needs.

Microsoft Word can analyse your text for readability. The [Microsoft Office website](#) explains the scores they offer and how to interpret them.

The website of the Plain English Campaign shares [a number of free guides](#) that may be useful. They also have [a tool that can analyse sections of text](#) for sentence length and word use.

The [Hemingway App](#) is another tool for assessing readability. Text can be copied straight into the webpage for review.

[This article](#) from the Neilson Norman Group shares insights into how people read on the web. The headline is that readers scan pages for key words rather than reading them through.

The Orange Book gives best practice guidance on risk management in the public sector.

<https://www.gov.uk/government/publications/orange-book>

The Government Finance Function Standard provides a framework for the wider context of government finance, and sets expectations for the effective management and use of public funds.

<https://www.gov.uk/government/publications/government-finance-standards-page>

Sustainability and environmental reporting guidance sets out the minimum requirements and underlying principles to be adopted in preparing information and provides some best practice guidance

<https://www.gov.uk/government/collections/public-sector-annual-reports-sustainability-reporting-guidance>

Supply Estimates guidance manual is a reference guide for anyone with direct or indirect responsibility for the supply estimates process

<https://www.gov.uk/government/publications/supply-estimates-guidance-manual>

Consolidated Budgeting Guidance provides guidance to government departments on the budgeting framework that applies for expenditure control

<https://www.gov.uk/government/collections/consolidated-budgeting-guidance>

Managing Public Money provides guidance on how to handle public funds of all kinds

<https://www.gov.uk/government/publications/managing-public-money>

Dear Accounting Officer letters are used to provide specific advice on issues of accountability, regularity and propriety and annual accounting exercises

<https://www.gov.uk/government/collections/dao-letters>

Whole of Government Accounts guidance and data collection tool inform preparers on submitting standardised accounts information

<https://www.gov.uk/government/collections/whole-of-government-accounts>

Cabinet Office Employer Pension Notices (EPNs) set detailed requirements for disclosure of salary, pension and compensation information

<http://www.civilservicepensionscheme.org.uk/employers/employer-pension-notice/>

Fair Pay Disclosures

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/328603/frem_hutton_review_fairpay_additional_guidance_update_2012-13.pdf

Introduction to classification webpage includes a guidance document on receipts which sets out 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>
