



## Financial Reporting Advisory Board Paper

### In year amendments for Government Financial Reporting Manual (FReM) and Illustrative Statements for 2021-22 and 2022-23

<b>Issue:</b>	HM Treasury requests that the FRAB agrees to the publication of an updated 2021-22 FReM and Illustrative Statements and new 2022-23 FReM and Illustrative Statements.
<b>Impact on guidance:</b>	The FReM and Illustrative Statements are updated for application from 2021-22. Amendments are made for corrections; clarifications; and to update performance reporting in light of Spending Review 2020.
<b>IAS/IFRS adaptation or interpretations for the public-sector context?</b>	IAS 19 interpretation 2 has been clarified to state the results of quadrennial actuarial valuations may not necessarily be reflected in annual reports and accounts in the same financial year, but entities are still required to meet the requirement of IAS 19 para 58 to ensure the amounts are still materially correct.
<b>Impact on WGA?</b>	Yes – WGA will be expected to incorporate the changes made in accounting standards within the Whole of Government Accounts. The 2021-22 WGA will be prepared on an IAS 17 basis.
<b>IPSAS compliant?</b>	N/A – The FReM follows IFRS and then has regard to IPSASs.
<b>Impact on Estimates/budgetary regime?</b>	No Estimates or budgetary regime impacts are anticipated for 2021-22.
<b>Alignment with National Accounts</b>	Yes, for 2021-22 (given the public sector will mainly be following IAS 17 in 2021-22).
<b>Recommendation:</b>	That FRAB notes the proposed in year amendments to the FReM and illustrative statements for 2021-22 and the first edition of the 2022-23 FReM. The Board is asked to agree both FReM publications.
<b>Timing:</b>	The updated Manuals and Illustrative Statements will be published in December 2021.

## Background

1. The Memorandum of Understanding between the Relevant Authorities for developing financial reporting guidance for the public sector requires that the version of the FReM for each financial year is available to users by the proceeding 1 January.
2. This paper requests that the Board notes the proposed in year amendments to the 2021-22 FReM which was originally presented to the Board in November 2020 and published in December 2020. Secondly, to comply with the MoU, that the Board notes the 2022-23 FReM for the first time.
3. The Board is asked to agree to the publication of both manuals.
4. In-year changes proposed to the 2021-22 FReM and illustrative statements include:
  - Minor corrections;
  - to improve clarity;
  - incorporation of some areas of guidance contained within the PES paper<sup>1</sup> from prior years; and
  - to update performance reporting for departments to report against their priority outcomes and strategic enablers agreed at Spending Review 2020 (SR 20).

## Amendments to the 2021-22 FReM and illustrative statements

5. There are no significant proposed in-year changes to the 2021-22 FReM. Many of the in-year changes that were made, resulted from feedback from departments or technical queries during the year.
6. The final version of the 2021-22 FReM is included at Annex A (separate document). A full list of the amendments may be found in Annex B with an explanation for their rationale.
7. No changes have been made to the 2021-22 illustrative financial statements (Annex C – separate document).
8. Agenda item 13 of this meeting proposes a public sector adaptation in respect of IFRS 9 which was initially discussed at the June 2021 meeting. The adaptation has not been included as an in year update to the 2021-22 FReM at this point. Should the adaptation be agreed, the FReM will be updated accordingly prior to publication in December 2021.

## Amendments to IFRS

9. There are no minor amendments in the updated 2021-22 FReM relating to changes in IFRSs.

## Other reporting requirements

10. To respond to ministerial and other parliamentary requests, HM Treasury will issue separate guidance for departments to report on specific issues in relation to the COVID-19 pandemic and EU exit.

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<sup>1</sup> PES papers are additional guidance issued by HM Treasury during the year on preparation of annual reports and accounts. This guidance sits outside the FReM, but departments are directed to follow the guidance in PES papers by HM Treasury.

11. The administrative deadline for the 2021-22 reporting period will be 30 June 2022, and we expect departments to lay their annual reports and accounts (ARAs) before the summer recess. In exceptional circumstances where departments are unable to lay pre-recess, HM Treasury will consider granting an extension to the administrative deadline (e.g., due to severe continuing impacts from the COVID-19 pandemic or delays to the audit of local government pension schemes within the group).
12. The reduced reporting measures, offered for 2019-20 and 2020-21 in response to the COVID-19 related reporting pressures, will be withdrawn for 2021-22. This is to encourage Accounting Officers to lay timelier ARAs with the regular level of transparency. This will be communicated to departments via the annual PES paper on ARA preparation.

## **Amendments to the 2022-23 FReM and illustrative statements**

13. The in year updates to the 2021-22 FReM roll forward into the draft 2022-23 FReM considered at this meeting.
14. The final version of the 2021-22 FReM is included at Annex D (separate document). A full list of the amendments may be found in Annex E with an explanation for their rationale.
15. Other changes to the 2022-23 FReM result from the adoption of IFRS 16 in the public sector from this financial year.
16. The illustrative statements have been updated with IFRS 16 see Annex F (separate document).
17. A new requirement has been introduced for departments to provide a reconciliation between the contingent liabilities reported in the Supply Estimate (as required by the Supply Estimates Manual) to those reported at the year end under financial reporting standards and FReM. This may be included as an annex to the ARAs and aims to improve transparency and ease of reference to the users of both documents.
18. In addition, existing requirements to separately report on consultancy spend and off payroll engagements have been incorporated into the FReM. These are not new disclosures but were previously promulgated to departments via the annual PES paper.
19. The only other change made relates to performance reporting, where departments will need to report against their priority outcomes and strategic enablers agreed at SR 21 (or the most recent priority outcomes and strategic enablers if this is not applicable).

## **Recommendation**

20. **The Board is requested to consider the proposed amendments to the 2021-22 FReM and to agree the publication.**
21. **The Board is requested to consider the proposed amendments to the 2022-23 FReM and to agree the publication.**



## Annex B Amendment record - In-year amendments to the 2021-22 FReM

Paragraph(s)	Change	Reason for change
4.2.4	Update of financial years.	Explained in the 'Change' column.
5.3.3 (e) 5.3.3 (f)	Added requirement to report against strategic enablers in outcome delivery plans.	Added after consultation with Cabinet Office and HMT internal teams now that content of outcome delivery plans is known.
5.4.4 (a)(iv)	Minor wording change so the paragraph reads correctly.	Explained in the 'Change' column.
5.4.4 (c)	Paragraph added requiring departments to report against strategic enablers included in outcome delivery plans.	Added after consultation with Cabinet Office and HMT internal teams now that content of outcome delivery plans is known.
6.5.19	Removal of requirement to report percentage changes in non-cash benefits as part of the fair pay disclosures	After consultation with RAWG it was agreed that non-cash benefits are uncommon in the public sector compared to the private sector, and therefore the costs of all entities in central government having to prepare this disclosure outweigh the benefits. It should be noted that non-cash benefits for directors are still included in the remuneration report, so there isn't a loss of transparency over senior pay. Rather, it non-cash benefits are not being included within the expanded fair pay disclosures for 2021-22.

Paragraph(s)	Change	Reason for change
6.5.20-6.5.22	New guidance added regarding the calculation of the fair pay disclosures required in 6.5.19.	Added after consultation with RAWG to ensure a consistent way of calculating these disclosures.
6.5.24	Minor amendments made to the 1 <sup>st</sup> and 5 <sup>th</sup> bullet that pension benefits should be excluded from the calculations.	Explained in the 'Change' column.
6.5.26(c)	Removal of requirement as it was the same as 6.5.26(a)	Explained in the 'Change' column.
6.5.28	Sentence added to clarify that the range should include directors (including the highest paid director) and exclude pension benefits.	Explained in the 'Change' column.
8.2 – IFRS 9 interpretation 5	Correction of cross-reference to the relevant IFRS 9 paragraph.	Explained in the 'Change' column.
8.2 – IFRS 9 adaptation 1	Inclusion of Government Banking Service balances being excluded from recognising stage 1 or stage 2 expected credit losses.	Explained in the 'Change' column.
8.2 – IFRS 16 interpretation 3	Updated cross-reference to guidance on valuing right-of-use assets to the annex to the 2021-22 FReM.	Explained in the 'Change' column.
8.2 – IAS 19 interpretation 2	Update of interpretation 2.	Updated interpretation to clarify that quadrennial valuations may not necessarily be reflected in annual reports and accounts due to timing

Paragraph(s)	Change	Reason for change
		differences and that, where this is the case, the requirement of IAS 19 para 58 for amounts to be materially correct is to still be followed.
9.1.19	Paragraph deleted.	Guidance on asset transfers is already included in para 10.1.30 of the FReM.
10.1.31	Guidance added clarifying that when assets are transferred, they should be revalued prior to the transfer.	Explained in the 'Change' column.
11.2.1(f)	New bullet added providing guidance where the outturn net cash requirement exceeds the estimate net cash requirement and the supply drawdown exceeds both the estimate net cash requirement and outturn net cash requirement.	Explained in the 'Change' column.
11.2.2	Update to reflect that departments "must" rather than "should" agree the EFA return prior to laying the ARAs.	To clarify guidance.

## Annex E Amendment record - 2022-23 FReM

The below table sets out consequential changes to the 2022-23 FReM from the 2021-22 FReM.

Paragraph(s)	Change	Reason for change
5.2.3 5.3.2 5.3.3(f) 5.4.4(a)(i)	Removal of reference to reporting against priority outcomes and metrics agreed as part of SR 20 and changed to the 'most recent spending review'.	To reflect that performance reporting needs to be against the priority outcomes and metrics agreed at the most recent spending review.
6.5.31 – 6.5.45 Annex 4	Inclusion of requirements on spending on consultancy and temporary staff and off-payroll arrangements.	This guidance was previously in PES papers but has now been included in the FReM.
6.7.1(g)	A new requirement for departments to provide a reconciliation between contingent liabilities included in the Supplementary Estimate to outturn in the ARAs and explain variances.	To improve transparency and ease of reference for users of financial reporting.
7.6.14 7.6.15 Table 1 below 8.1.2 10.1.57 Section 10.2	Numerous changes in guidance for the adoption of IFRS 16 in the public sector.	Explained in 'Change' column.