HM TREASURY

Financial Reporting Advisory Board Paper

In year amendments for Government Financial Reporting Manual (FReM) and Illustrative Statements for 2023-24 and 2024-25

Issue:	HM Treasury requests that the FRAB agrees to the publication of an updated 2023-24 FReM and Illustrative Statements and new 2024-25 FReM and Illustrative Statements.
Impact on guidance:	The FReM and Illustrative Statements are updated for application from 2023-24. Significant amendments are set out in this paper.
IAS/IFRS adaptation or interpretations for the public-sector context?	Yes, there is one new adaptation to IFRS 9 and an addition to IAS 32 interpretation 1.
Impact on WGA?	Yes – WGA will be expected to incorporate the changes made in accounting standards within the Whole of Government Accounts.
IPSAS compliant?	N/A – The FReM follows IFRS and then has regard to IPSASs.
Impact on Estimates/budgetary regime?	No Estimates or budgetary regime impacts are anticipated for 2023-24.
Alignment with National Accounts	N/A- no changes made which impact alignment between National Accounts and departmental accounts.
Recommendation:	That FRAB notes the proposed in year amendments to the FReM and illustrative statements for 2023-24 and the first edition of the 2024-25 FReM. The Board is asked to agree both FReM publications.
Timing:	The updated Manuals and Illustrative Statements will be published in December 2023.

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 2023-24 FReM which was originally presented to the Board in November 2022 and published in December 2022. Secondly, to comply with the MoU, this paper requests that the Board notes the 2024-25 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 2023-24 FReM and illustrative statements include:
   - The addition of a summary of and signpost to the Task Force on Climate-related Financial Disclosure- (TCFD-) aligned disclosure application guidance (Section 5 of the FReM);
   - The addition of guidance on the disclosure of remote contingent liabilities as discussed at FRAB 150 (Section 6 of the FReM);
   - A new IFRS 9 adaptation as discussed at FRAB 149 (Section 8 of the FReM);
   - An addition to IAS 32 interpretation 1 (Section 8 of the FReM); and
   - The removal of Carbon Reduction Commitment (CRC) guidance, replaced with Climate Change Levy guidance (Section 10 of the FReM).
5. Other changes have been made to improve the clarity of guidance- the more substantive changes are set out in the Amendment Record in the Annex to this paper.

Amendments to the 2023-24 FReM and illustrative statements

6. The significant proposed in-year changes to the 2023-24 FReM are detailed below. Many of the in-year changes that were made resulted from feedback from departments or technical queries during the year.

TCFD Guidance

7. 2023-24 is the first year of the phased implementation for adopting the TCFD recommendations. A paragraph has been added to Section 5 of the FReM setting out the scope and thresholds for the requirements, and signposting to the TCFD-aligned disclosure application guidance on GOV.UK. The paragraph also provides additional guidance on other factors to consider for adopting the framework, and on voluntary reporting.

Remote contingent liabilities

8. At FRAB 150 HM Treasury proposed changes to the remote contingent liability reporting requirements in the FReM. Remote contingent liabilities are disclosed in the Accountability Report of an entity's annual report and accounts (ARA) as they do not meet the disclosure threshold in IAS 37.

9. A new best practice requirement has been included in Section 6 of the FReM for entities to include links to written ministerial statements and departmental minutes which have been presented to parliament notifying them of liabilities.

10. The rationale for these updates is explained in paper 5, section C presented at FRAB 150.

New IFRS 9 adaptation

11. A new adaptation to IFRS 9 has been added to the FReM, requiring financial instruments (other than financial guarantees) issued at below fair value, with no active market or observable equivalent such that it would follow IFRS 9 paragraph B5.1.2A b), to be measured at fair value at initial recognition.

12. Full analysis of this adaptation can be found in paper 6 presented at FRAB 149.

13. This adaptation was approved at FRAB 149 subject to drafting clarifications- refer to minute 89 of the FRAB 149 minutes.

IAS 32 interpretation for PDC impairments

14. There is one interpretation to IAS 32, which relates to Public Dividend Capital (PDC). Additional guidance to this interpretation of IAS 32 has been added in respect of impairments to PDC when there is a machinery of government change (a machinery of government change happens when there is a government re-organisation).

15. The interpretation requires impairments of PDC due to a machinery of government change to be recognised in the Statement of Changes in Taxpayers Equity (SoCTE). Impairments of PDC due to a machinery of government change can happen when entities are dissolved.

16. HM Treasury have determined that it is more appropriate for these impairments to go through reserves as the trigger for impairment is a change in government policy rather than financial management or performance issues.

17. For the avoidance of doubt, this new guidance within the existing interpretation does not relate to impairments of PDC due to other factors which are not a machinery of government change.

Removal of Carbon Reduction Commitment (CRC) Guidance

18. HM Treasury have removed the CRC guidance from the FReM as the CRC scheme closed in 2018-19. Refunds of any allowances purchased by scheme participants are made at the discretion of the Secretary of State for the Department for Energy Security and Net Zero.

19. HM Treasury have replaced guidance on the CRC with the Climate Change Levy (CCL). The guidance added to the FReM on the CCL has been taken from the DHSC's Group Accounting Manual (GAM).

20. Replacing guidance on the CRC with CCL is not removing or adding and accounting standard adaptations or interpretations. Rather, the guidance is highlighting areas entities should consider when accounting for transactions if they participate in the CCL.
21. The final version of the 2023-24 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.

Illustrative statements

22. One change has been made to the illustrative statements. Note 4.3 in Department Yellow has been updated to clarify the scope of transactions to be included in the note is remote contingent liabilities which are within the scope of IAS 37.

Amendments to IFRS

23. There are no amendments in the updated 2023-24 FReM relating to changes in IFRSs.

Amendments to the 2024-25 FReM and illustrative statements

24. The in-year updates to the 2023-24 FReM roll forward into the draft 2024-25 FReM considered at this meeting.
25. The final version of the 2024-25 FReM is included at Annex 3 (separate document).
26. There are no changes to the 2024-25 draft FReM and illustrative statements from the 2023-24 versions.

Recommendation

27. **The Board is requested to consider the proposed amendments to the 2023-24 FReM and to agree the publication.**
28. **The Board is requested to consider the proposed amendments to the 2024-25 FReM and to agree the publication.**

HM Treasury
23 November 2023

Annex - Amendment record - In-year amendments to the 2023-24 FReM

The below table sets out consequential changes to the 2023-24 final FReM from the 2023-24 draft FReM. [N.B it does not include minor changes such as correction of typos, changes to cross-referencing etc.).

Paragraph(s)	Change	Reason for change
5.4.8	First sentence, changed '*…are expected to*' to '*must*'.	This requirement is mandatory rather then optional, so the language has been updated to reflect this fact.
5.4.9	Information and signposting to the TCFD application guidance added	TCFD Phase 1 disclosures are required from 2023-24 for entities meeting certain thresholds.
First bullet point under the table above paragraph 6.5.41	Bullet point removed.	Feedback from some preparers disputed that £245 is representative of the minimum day rate for a senior civil servant. The bullet point has therefore been removed.
6.5.44	Paragraph deleted	Paragraph deleted as it duplicated requirements in 6.5.44 a) and 6.5.44 c)
6.7.1 b)	Guidance added to clarify that scope of transactions for this paragraph is remote contingent liabilities in scope of IAS 37 but not disclosed.	This change was explained in paper 5, section C presented at FRAB 150.
6.7.1 g), first bullet point)	Guidance added to clarify that scope of transactions for this paragraph is remote contingent liabilities in scope of IAS 37 but not disclosed.	This change was explained in paper 5, section C presented at FRAB 150.

Paragraph(s)	Change	Reason for change
6.7.3	New best practice requirement for entities to include links to written ministerial statements and departmental minutes which have been presented to parliament notifying them of liabilities.	This change was explained in paper 5, section C presented at FRAB 150.
8.2.1, Table 2, IFRS 9 adaptation 5	Adaptation added	This change was explained in paper 6 presented at FRAB 149.
8.2.1, Table 2, IAS 32 interpretation 1	Guidance added on public dividend capital (PDC) impairments due to a machinery of government change.	When there is a machinery of government change this could result in an impairment of PDC (e.g., due to entities being dissolved). HM Treasury have determined that it is more appropriate for these impairments to go through reserves as the trigger for impairment is a change in government policy rather than financial management or performance issues.
Section 10.3	Removal of guidance related to the Carbon Reduction Commitment (CRC) scheme. Replaced with guidance on the Climate Change Levy.	The CRC was closed by the UK Government in 2018-19, with refunds for any allowances purchased provided at the discretion of the Secretary of State for the Department for Energy Security and Net Zero. Further information can be found here: CRC Energy Efficiency Scheme: closure guidance for participants - GOV.UK (www.gov.uk) The CRC has been replaced with the Climate Change Levy. The guidance added on the Climate Change Levy is based on the existing guidance on this levy within the DHSC GAM.