

## Financial Reporting Advisory Board

### In year amendments for Government Financial Reporting Manual (FReM) and Illustrative Statements for 2024-25 and 2025-26

<b>Issue:</b>	HM Treasury requests that the FRAB agrees to the publication of an updated 2024-25 FReM and Illustrative Statements and new 2025-26 FReM and Illustrative Statements.
<b>Impact on guidance:</b>	The FReM and Illustrative Statements are updated for application from 2024-25. Significant amendments are set out in this paper.
<b>IAS/IFRS adaptation or interpretations for the public-sector context?</b>	2024-25 FReM: no new adaptations or interpretations added as part of the in-year update.  2025-26 FReM: adaptations and interpretations added for IFRS 17, IAS 8, IAS 16 and IAS 38.
<b>Impact on WGA?</b>	Yes – WGA will be expected to incorporate the changes made in accounting standards within the Whole of Government Accounts.
<b>IPSAS compliant?</b>	N/A – The FReM follows IFRS and then has regard to IPSASs.
<b>Impact on Estimates/budgetary regime?</b>	The estimates and budgetary impact of the new adaptations and interpretations in the FReM have been agreed and included in HM Treasury’s Consolidated Budgetary Guidance (CBG).
<b>Alignment with National Accounts</b>	N/A- no changes made which impact alignment between National Accounts and departmental accounts.
<b>Recommendation:</b>	That FRAB notes the proposed in year amendments to the FReM and illustrative statements for 2024-25 and the first edition of the 2025-26 FReM. The Board is asked to agree both FReM publications.
<b>Timing:</b>	The updated Manuals and Illustrative Statements will be published in December 2024.

#### DETAIL

## **Background**

1. The Memorandum of Understanding (MoU) 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 2024-25 FReM which was originally presented to the Board in November 2023 and published in December 2023. Secondly, to comply with the MoU, this paper requests that the Board notes the 2025-26 FReM for the first time.
3. The Board is asked to agree to the publication of both manuals.

## **Amendments to the 2024-25 FReM and illustrative statements**

4. In-year changes proposed to the 2024-25 FReM and illustrative statements include:
  - Updates to the performance reporting section of the FReM (sections 5.3 and 5.4) reflecting new government department outcomes and strategic objectives are due to be agreed as part of the current Spending Review process, which is expected to be concluded in early 2025. Government departments should report against the new outcomes, strategic objectives and other goals agreed through this process.
  - Paragraph 10.5.5 relating to inventories held under price support and stabilisation programmes has been deleted after consultation with the entity impacted by this paragraph. They confirmed it can now be deleted.
5. Paragraph 9.1.11 has been added to the 2024-25 FReM to provide greater clarity to preparers of what information should be restated after a machinery of government change and to not require the restatement of fair pay information in the year of a MoG. Refer to FRAB paper 154 (05) for further information. The FReM may also need to be amended if FRAB does not HM Treasury's recommendation for fair pay disclosures to not be restated when an entity accounts for a machinery of government change by merger accounting or requests the drafting to be amended.
6. No significant changes have been made to the 2024-25 illustrative statements.
7. The 2024-25 FReM and illustrative statements can be found in the annexes to this paper.
8. The 2024-25 FReM in-year amendment record can be seen in [Appendix 1](#) of this paper.

## **Remuneration reporting**

9. In the [2023-24 FReM](#) additional guidance was included in paragraphs 6.5.8 and 6.5.15 covering instances where certain pension data was not available in a timely manner and waiting for it to be finalised could risk causing a delay to the planned laying of accounts.



10. This guidance has not been rolled forward into the 2024-25 FReM. However, additional guidance may be included on remuneration reporting in section 6.5 of the FReM depending on whether FRAB members agree with HM Treasury's recommendations in FRAB paper 154 (12).
11. Details of the additional guidance included in the 2023-24 FReM but not rolled forward into 2024-25 can be seen in [Appendix 1](#) of this paper.

## ***Amendments to the 2025-26 FReM and illustrative statements***

12. Several changes have been made to the 2025-26 FReM, these are: implementation of IFRS 17, changes from the non-investment assets thematic review project, and inclusion of new guidance on accounting for social benefits. These changes are outlined in more detail below.
13. The 2025-26 FReM and illustrative statements can be found in the annexes to this paper.
14. The 2025-26 FReM in-year amendment record can be seen in [Appendix 2](#) of this paper.

## **Changes due to IFRS 17**

15. IFRS 17 is being implemented in the FReM from 2025-26. References to IFRS 4 have therefore been removed in the FReM.
16. Adaptations and interpretations to IFRS 17 have been included in section 8.2 of the FReM. All adaptations and interpretations have been taken from the [IFRS 17 application guidance](#) issued by HM Treasury in July 2023. All adaptations and interpretations were agreed by FRAB at the June 2023 FRAB meeting.
17. The illustrative statements for Department Yellow, Agency Pink and NDPB Green have also been updated to reflect IFRS 17 disclosures including:
  - Reconciliations of insurance contract liabilities.
  - Reconciliations of measurement components of insurance contract balances.
  - Analysis of insurance contracts recognised in-year.

## **Changes due to the non-investment assets valuation (NIAV) thematic review**

18. The key changes proposed for implementation in 2025-26 from the NIAV project are:
  - Adapting IAS 16 so that entities no longer need to revalue an asset if its fair value differs materially from its carrying value. Asset valuations are carried out using one of the following processes:
    - A quinquennial valuation supplemented by annual indexation.



- A rolling programme of valuations over a 5-year cycle, with annual indexation applied to assets during the 4 intervening years.
  - For non-property assets only, appropriate indices.
19. Transition guidance has also been added in section 8.2 and chapter 10 of the FReM for this adaptation.
  - A new adaptation has been added to IAS 8 to confirm valuation changes made to non-investment asset (including intangible assets) are made prospectively rather than retrospectively.
  - Removing references of specialised, non-specialised assets and holding assets for their service potential throughout the FReM. Instead, assets are now referred to as being held for their operational capacity in the FReM.
  - Additional guidance added for entities to determine whether an asset is held for its operational capacity.
  - Two new adaptations to IAS 38 to account for intangible assets at historic cost prospectively from 1 April 2025. Transition guidance has been added on how to treat carried forward balances.
  - Guidance has been added to section 10.4 of the FReM explaining that undertaking a full revaluation should not be the default process to demonstrate an asset is not materially impaired and comply with IAS 36.
19. In addition to these changes, HM Treasury are proposing to include one additional valuation process in the FReM which does not involve indexation, being a quinquennial revaluation with a desktop revaluation in year 3 (refer to FRAB paper 154 (08)). If this proposal is supported by FRAB, this would also be added to section 10.1 of the FReM and to IAS 16 adaptation 2.
  20. Proposed changes to removing the requirement to consider alternative sites when valuing an item of PPE at DRC is not being included in the 2025-26 FReM. HM Treasury propose the valuation of land be a separate workstream to be carried out in 2025 as set out in FRAB paper 154 (08).

## Accounting for social benefits

21. Social benefits guidance was approved for publication at the [March 2024 FRAB meeting](#) for inclusion in the 2025-26 FReM. This guidance has been added to section 11.4 of the FReM.

## Recommendation

22. The Board is requested to consider the proposed amendments to the 2024-25 FReM and to agree the publication.

The Board is requested to consider the proposed amendments to the 2025-26 FReM and to agree the publication.

**HM Treasury**  
**21 November 2024**

## Appendix 1- Amendments to the 2024-25 FReM

The table below sets out consequential changes to the 2024-25 final FReM from the 2024-25 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
Section 2.6	Removal of references to the FRC 2018 guidance on the strategic report.	<p>The FRC guidance was updated in 2022 to incorporate the following:</p> <ol style="list-style-type: none"> <li>1) climate-related financial risks and opportunities, in line with the Taskforce on Climate-related Financial Disclosures (TCFD) recommendations;</li> <li>2) the need for traded limited liability partnerships (LLPs) and banking LLPs to publish a strategic report;</li> <li>3) clarifying the scope and definitions of the requirements with regard to public interest entities (PIEs); and</li> <li>4) the government’s Streamlined Energy and Carbon Reporting (SECR) requirements.</li> </ol> <p>Points 2 and 3 are not particularly relevant to central government entities (there are very few LLPs and PIEs in central government).</p> <p>In regards to points 1 and 4, HM Treasury already have significant guidance on TCFD and sustainability reporting for the central government context.</p> <p>As such no further amendments to the guidance in the FReM has been added, but references to the 2018 guidance has been deleted to ensure the FReM is not referencing superseded documents.</p>



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Paragraph(s)	Change	Reason for change
4.3.7	Paragraph added on ONS reclassification changes and whether to restate.	It did not appear clear in the FReM what entities should do when an entity is reclassified to central government. Guidance has therefore been added in chapter 4.3.
Sections 5.3 and 5.4	Updates to language on what government department outcomes and strategic objectives to report against.	Updates have been made as new government department outcomes and strategic objectives are due to be agreed as part of the current Spending Review process. Government departments will now report against the new outcomes, strategic objectives and other goals agreed at the latest SR process.
6.5.8	Removal of guidance on when pension data is not available in a timely manner.	<p>In the 2023-24 FReM the following was added to paragraph 6.5.8 in the 2023-24 FReM as a temporary measure in respect of the availability of certain pensions data: <i>‘Where pension benefit data is not available for directors in a timely manner and waiting for it to be finalised could risk causing a delay to the planned laying of accounts, entities do not need to include a figure for accrued pension benefit in the single total figure of remuneration nor disclosed as a separate component. The following narrative must be disclosed instead. “Accrued pension benefits for directors are not included in this table for 2023/24 due an exceptional delay in the calculation of these figures following the application of the public service pension remedy”’.</i></p> <p>This guidance has been removed from the 2024-25 FReM and replaced with alternative guidance as set out in this amendment log. <b>[NOTE- AMENDMENT LOG TO BE UPDATED DEPENDING ON WEHTER THE RECCOMENDATION IN PAPER FRAB 154 (10) IS AGREED.]</b></p>
6.5.15	Removal of guidance on when pension data is not available in a timely manner.	In the 2023-24 FReM the following was added to paragraph 6.5.15 in the 2023-24 FReM as a temporary measure in respect of the availability of certain pensions data: <i>‘Where data is not available in a timely manner for directors and waiting for it to be finalised could risk causing a delay to the planned laying of accounts, entities do not need to disclose pension entitlements and the following narrative must be disclosed instead.</i>



Paragraph(s)	Change	Reason for change
		<p><i>“Accrued pension benefits for directors are not included in this table for 2023/24 due an exceptional delay in the calculation of these figures following the application of the public service pension remedy.”</i></p> <p>This guidance has been removed from the 2024-25 FReM and replaced with alternative guidance as set out in this amendment log. <b>[NOTE- AMENDMENT LOG TO BE UPDATED DEPENDING ON WEHTER THE RECCOMENDATION IN PAPER FRAB 154 (10) IS AGREED.]</b></p>
9.1.5	Paragraph added.	Paragraph added to confirm ONS reclassification changes are not within the scope of MoG change guidance in Chapter 9 of the FReM.
9.1.11	Paragraph added clarifying what information in the accountability report requires restating after a machinery of government change.	To provide greater clarity to preparers of what information should be restated after a machinery of government change and to not require the restatement of fair pay information in the year of a MoG. Refer to FRAB paper 154 (05) for further information.
9.1.19	Paragraph amended as follows (change in red): ‘Both the transferor and the transferee of a business combination under common control should apply a symmetrical accounting treatment for the transfer, <b>though a transfer can involve both merger accounting and absorption accounting at different levels.</b> ’	Red text has been added to confirm that, though symmetrical principles should be applied, there are limited instances where a MoG change can involve merger accounting and absorption accounting at different levels (e.g. when a function is transferred to/from an agency or ALB of one department from/to a different departmental group).



21 November 2024

Paragraph(s)	Change	Reason for change
10.5.5	Paragraph deleted.	After engagement with the affected entity, it was confirmed this paragraph is no longer needed.
10.1.64	Paragraph covering initial measurement of indexed-linked PPPs transition to IFRS 16 deleted.	Paragraph has been deleted as initial measurement of indexed-linked PPPs was only relevant in 2023-24. Only the subsequent measurement is relevant from 2024-25 onwards.



## Appendix 2 - Amendments to the 2025-26 FReM

The table below sets out consequential changes to the 2025-26 FReM published in December 2024 from the 2024-25 Final 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
Table 1 below paragraph 8.1.2	Reference to IFRS 4 deleted. Reference to IFRS 17 added.	IFRS 17 is implemented in the FReM from 2025-26. IFRS 4 is therefore no longer applied from this financial year.
Table 2 below paragraph 8.2.2	IFRS 17 adaptations and interpretations added.	IFRS 17 is being implemented in the FReM from 2025-26. Adaptations and interpretations listed in Table 2 are those stated in the IFRS 17 application guidance: <a href="#">IFRS 17 Insurance Contracts Application Guidance.pdf</a>
Table 2 below paragraph 8.2.2	Minor changes to wording in the IFRS 16 and IAS 36 adaptations to remove references to 'service potential' and replace with 'operational capacity'.	Alignment with language change in the FReM. Operational assets are now referenced as being held for their operational capacity rather than their service potential.
Table 2 below paragraph 8.2.2	New adaptation to IAS 8 to provide guidance on applying the changes to the non-investment assets valuation regime in the FReM.	Output from the non-investment assets thematic review and workstream.
Table 2 below paragraph 8.2.2	IAS 16 adaptation 1a) updated to remove reference to 'service potential' and replace with 'operational capacity'. Reference to specialised and non-specialised assets also	Output from the non-investment assets thematic review and workstream.



21 November 2024

Paragraph(s)	Change	Reason for change
	removed; valuation basis clarified as existing use value.	
Table 2 below paragraph 8.2.2	IAS 16 adaptations 2, 3 and 4 added.	Output from the non-investment assets thematic review and workstream.
Table 2 below paragraph 8.2.2	Previous IAS 38 adaptation removed. Replaced with two new adaptations.	Output from the non-investment assets thematic review and workstream.
6.4.8 d)	Wording updated to include 'evaluation' in the paragraph.	To ensure entities include analysis of how they have evaluated their risks and internal control framework in the governance statement.
Sections 10.1 and 10.4	Several changes made to reflect changes to the non-investment asset valuation regime following the non-investment asset thematic review. Key changes noted in the next column	<p>Key changes are:</p> <ol style="list-style-type: none"> <li>1) Assets are now being referred to as being held for their operational capacity rather than service potential.</li> <li>2) Reference to specialised and non-specialised assets has been removed from section 10.1.</li> <li>3) The number of valuation processes entities can use has been reduced, e.g. annual revaluations are not longer required in the FReM.</li> <li>4) The purpose of indexation has been added to section 10.1.</li> <li>5) Additional guidance on whether an asset is held for its operational capacity or not has been added to section 10.1.</li> </ol>



Paragraph(s)	Change	Reason for change
		6) Guidance has been added in section 10.4 to explain undertaking a full revaluation should not be the default process to demonstrate there has not been a material impairment to comply with IAS 36.
11.4.6 – 11.4.7	Guidance on social benefits added.	FRAB approved HM Treasury’s social benefit guidance at FRAB meeting 152: <a href="https://www.gov.uk/government/publications/frab-minutes-and-associated-papers-21-march-2024">https://www.gov.uk/government/publications/frab-minutes-and-associated-papers-21-march-2024</a>