

Financial Reporting Advisory Board

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

Issue:	HM Treasury requests that the FRAB agrees to the publication of an updated 2025-26 FReM and Illustrative Statements and new 2026-27 FReM and Illustrative Statements.
Impact on guidance:	The FReM and Illustrative Statements are updated for application from 2025-26. Significant amendments are set out in this paper.
IAS/IFRS adaptation or interpretations for the public-sector context?	<p>2025-26 FReM: a new adaptation is proposed to IAS 1 to remove the requirement to present a 3rd SoFP in certain circumstances when merger accounting is applied to account for a MoG change. An adaptation is also proposed to be added to note the requirement for the transferor in a MoG change applying symmetrical accounting is also an adaptation to IFRS.</p> <p>2026-27 FReM: no new adaptation or interpretations added.</p>
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?	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).
Alignment with National Accounts	N/A- no changes made which impact alignment between National Accounts and departmental accounts.
Recommendation:	<p>That FRAB notes the proposed in year amendments to the FReM and illustrative statements for 2025-26 and the first edition of the 2026-27 FReM. The Board is asked to agree both FReM publications.</p> <p>FRAB agrees with the recommendation to review changes made to the FReM over the previous 3 years as part of the FReM approval process.</p>
Timing:	The updated Manuals and Illustrative Statements will be published in December 2025.

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 2025-26 FReM which was originally presented to the Board in November 2024 and published in December 2024. Secondly, to comply with the MoU, this paper requests that the Board notes the 2026-27 FReM for the first time.
3. The Board is asked to agree to the publication of both manuals.

Amendments to the 2025-26 FReM and illustrative statements

4. Several amendments were made to the 2025-26 FReM published in December 2024 covering IFRS 17, outputs from the non-investment asset valuation thematic review and social benefit expenditure guidance. These are documented [here](#) and were approved at FRAB 154 in November 2024.
5. In-year changes proposed to the 2025-26 FReM include:
 - A clarification in paragraphs 6.5.19 – 6.5.23 of the FReM that non-executive directors (NEDs) should not be included in the fair pay calculations (for further detail, see section below).
 - A new adaptation to IAS 1 to no longer require a statement of financial position (SoFP) as at the beginning of the previous reporting period in certain circumstances. (refer to FRAB paper 157 (07) for further details).
 - An adaptation has been added to the end of Table 2 in section 8.2 of the FReM to state the transferee and transferor apply symmetrical accounting when accounting for a MoG change. This has been added as, from the perspective of the transferor, this is an adaptation to IFRS. This isn't a new adaptation as use of symmetrical accounting for MoG changes has been in place in the FReM for several years. However, it has been added to the list of adaptation and interpretations to IFRS in the FReM for completeness and following FRAB member feedback. (refer to FRAB paper 157 (07) for further details).
 - IAS 16 adaptation 2 has been amended to clarify that the requirement in IAS 16 paragraphs 36 and 38 to revalue an entire class of assets within a short period is considered satisfied by this adaptation. This amendment has been made in line with the minutes of FRAB 155 (March 2025), minute 38(b).
 - Updates to the performance reporting section of the FReM (sections 5.3 and 5.4) requiring government entities to report against outcomes and metrics as set out in their Outcome Delivery Plan for 2025-26.
6. No significant changes have been made to the 2025-26 illustrative statements compared to those published in December 2024.
7. The 2025-26 FReM can be found separately in Annex 1 to this paper. As there have been no significant changes to the illustrative statements these have not been included in the annexes to this paper, but can be found [here](#) for reference.

8. The 2025-26 FReM in-year amendment record can be seen in [Appendix 1](#) of this paper.

Non-executive directors and fair pay disclosures

9. HMT have been made aware that there is some confusion about whether NEDs should be included in the fair pay FTE disclosure calculations, and that this is being challenged at audit. Discussions with RAWG indicated that some preparers hold the view that NEDs should be included if they meet the definition of a director in line with FReM 6.4.3, while others feel that NEDs are not employees or staff and so should not be included, with the latter view being more common.
10. The FReM is not clear on this point, although the current Fair Pay disclosure implementation guidance is clear that NEDs are in scope for consideration as highest paid director based on an annualised salary.
11. HMT's view is that NEDs should be removed from the scope of the fair pay disclosure. NEDs are not typically considered to be employees or staff of an organisation. The HMT view is this conclusion is consistent with Companies Act definitions, which defines employees as '*persons employed under contracts of service*'. [CA06, Chapter 46, Part 15, sections 382(6)(a), 384(7)(a), 414CA(5)(a), 465(6)(a)]
12. Further, although a NED could theoretically be an entity's highest paid director, this is unlikely as NEDs are normally only paid a fee for a small number of days each year. As stated in the fair pay disclosure guidance, their remuneration is annualised. For example, if a NED is paid a fee of £5k per monthly meeting, their annualised remuneration would be £60k. For a NED to have an annualised remuneration of £120k, their monthly fee would need to be £10k.
13. A clarification has therefore been made in paragraphs 6.5.19 – 6.5.23 of the FReM that non-executive directors (NEDs) should not be included in the fair pay calculations. HMT have also clarified that, where entities have included NEDs in the fair pay calculations in prior years, they do not need to restate disclosures. A footnote stating prior year disclosures include NEDs will be sufficient.
14. https://assets.publishing.service.gov.uk/media/61b856fae90e07043c35f5b1/Hutton_Review_of_Fair_Pay_-_Implementation_guidance.pdf As an organisation typically has a small number of NEDs, their exclusion from the fair pay disclosures should not have a significant impact on the ratios.
15. HMT are of the view that the removal of NEDs from the scope of this disclosure will provide clarity to preparers and auditors, provides transparency to users, and is in line with the intention of the fair pay disclosure requirements. It is also worth noting that all NEDs who meet the definition of a director per the FReM will continue to have their remuneration disclosed in full in line with requirements set out in FReM paragraph 6.5.8.
16. If the Board supports this change, similar amendments would be made to the [fair pay guidance](#) issued on gov.uk.

Amendments to the 2026-27 FReM and illustrative statements

17. Updates to the performance reporting section of the 2026-27 FReM (sections 5.3 and 5.4) have been made, requiring government entities to report against outcomes and metrics as agreed at Autumn Budget 2025. Please note this change is currently subject to ministerial approval, so may change again.



18. A new requirement has been added to section 5 in the 2026-27 FReM regarding reporting including a summary of efficiencies and progress towards efficiencies targets in line with the Government Efficiencies Framework. This is a comply or explain requirement. This requirement originated from a Public Accounts Committee (PAC) recommendation (refer to recommendation 1b) in this [document](#)). The Board received a paper on this requirement at FRAB 156; the paper can be found here: [FRAB 156 07 Efficiency reporting.pdf](#).
19. Paragraph 9.1.14 of the FReM has been updated to require the gain/ loss on absorption when accounting for a MoG change using absorption accounting to be recorded in reserves rather than the SoCNE. This is an output from the MoG change Technical Working Group. It was agreed the gain/ loss on absorption was better reflected in reserves rather than net expenditure as the gain/ loss is non-operating and does not represent income or expenditure.
20. The 2026-27 FReM can be found separately in Annex 2 to this paper. As there have been no significant changes to the illustrative statements from the 2025-26 illustrative statements these have not been included in the annexes to this paper, but the 2025-26 statements can be found [here](#) for reference.
21. The 2026-27 FReM in-year amendment record can be seen in [Appendix 2](#) of this paper.

Routine review of change to the FReM

22. The FReM is reviewed and approved by FRAB on an annual basis. Changes to the FReM are recorded and published in the amendment record. HM Treasury is conscious there is currently no mechanism to consider whether minor changes (major changes are subject to post-implementation reviews) have had the desired effect and/or brought sufficient value to users of the accounts to justify their inclusion.
23. HM Treasury propose to review the amendment record after three years and, as part of the FReM approval process, highlight to the Board if there are any changes/additions to the FReM that require further review or discussion following implementation. The first review will be at the November 2026 FRAB meeting, covering changes made since November 2023.

Recommendation

24. The Board is requested to consider the proposed amendments to the 2025-26 FReM and to agree the publication.
25. The Board is requested to consider the proposed amendments to the 2026-27 FReM and to agree the publication.
26. The Board is requested to agree the amendment record should be reviewed, and any known implementation issues highlighted, as part of the routine FReM approval process.

HM Treasury
20 November 2025

Appendix 1- Amendments to the 2025-26 FReM

The table below sets out consequential changes to the 2025-26 FReM published in December 2025 from the 2025-26 FReM published in December 2024. [N.B it does not include minor changes such as correction of typos, changes to cross-referencing etc.).

Paragraph(s)	Change	Reason for change
5.2.3, 5.3.3(e), 5.3.3(f), 5.4.4(a), 5.4.4(ai), 5.4.4(aii), 5.4.6(ciii)	Requirement to report on outcomes as agreed at the latest SR process deleted and replaced with requirement to report against outcomes and metrics as set out in an entity's Outcome Delivery Plan for 2025-26.	To reflect what key outcomes and metrics government entities should report against in their 2025-26 ARA (where entities have Outcome Delivery Plans in 2025-26).
6.5.21, 6.5.22, 6.5.23	Guidance clarified to state non-executive directors (NEDs) are excluded from the fair pay disclosure calculations.	<p>HMT have found there are regular instances where auditors have been challenging entities about whether NEDs should be included in the fair pay disclosure calculations.</p> <p>Some state NEDs should be included. Others state NEDs are not employees or staff, so should not be included in the fair pay disclosure calculations.</p> <p>Per the FReM, a NED can be a 'director'. However, it is extremely unlikely a NED would be an entity's highest paid director (even on an annualised basis) as they are usually paid a 'fee' for a relatively small number of days each year.</p> <p>The HMT view is NEDs are typically not considered employees of an organisation.</p> <p>On the basis that NEDs are not usually considered employees and the exclusion of NEDs is not expected to have a significant impact on fair pay ratio calculations,</p>



Paragraph(s)	Change	Reason for change
		HMT have decided to clarify NEDs are not included in the fair pay calculations as set out in the FReM.
6.5.26	Paragraph deleted and replaced with a requirement to disclose prior year comparative information for each of the fair pay ratios.	This paragraph provided guidance on comparative information for fair pay disclosures in the first year of implementation, which was in 2021-22. It is no longer the first year of implementation. As such the previous guidance has been replaced with a requirement to provide comparative information for all fair pay disclosures.
6.5.30 – 6.5.43	Guidance on reporting spending on consultancy and temporary staff and off-payroll appointments moved below the list of requirements for the staff report.	This guidance relates to requirements j) and k) in the list of disclosures required for the staff report. Therefore, putting this guidance below the list of staff report requirements makes the FReM easier to follow.
7.4.1	Wording updated to clarify that payments to the Consolidated Fund are included below the lines ' <i>Net financing</i> ' and ' <i>Net increase/ (decrease) in cash and cash equivalents in the period before adjustment for payments to the Consolidated Fund</i> '.	To align with the Department Yellow illustrative statements, which is clear on the placement of payments to the Consolidated Fund within the Statement of Cashflows.
Section 8.2, Table 2, IAS 1 adaptations	New adaptation to remove the requirement to disclose a SoFP as at the beginning of the previous reporting period (also known as the 3 rd SoFP) when a MoG change happens and there are no retrospective accounting	This is an output from the MoG change technical working group meetings. It was determined that the benefits of disclosing a SoFP as at the beginning of the previous reporting period, where there are no retrospective accounting policy changes or prior period errors, are limited and not sufficient to justify its inclusion in the financial statements.



Paragraph(s)	Change	Reason for change
	policy changes or prior period errors to correct.	
Section 8.2, Table 2, IAS 16 adaptation 2	Added the following: 'The requirements in IAS 16 paragraphs 36 and 38 to revalue an entire class of assets within a short period are considered satisfied by this adaptation.'	<p>Text has been added in line with the FRAB 155 (March 2025) minutes, minute 38(b).</p> <p>IAS 16 paragraphs 36 and 38 state that all assets within an entire class are revalued at the same time, though a rolling programme can be adopted if all assets within the class are revalued within a short period.</p> <p>The new valuation regime requires PPE is revalued every 5 years. The transitional requirements bring forward previous revaluations and note the maximum period between revaluations must not exceed 5 years.</p> <p>The text added clarifies that the mechanics of the new valuation regime for PPE satisfy IAS 16 paragraphs 36 and 38.</p>
Section 8.2, Table 2	At the end of Table 2, adaptation added to state the transferee and transferor apply symmetrical accounting when accounting for a MoG change.	To ensure the list of adaptations and interpretations in section 8.2 in the FReM is complete. Though the requirement to apply symmetrical accounting by the transferee and transferor to accounting for a MoG change has been in the FReM for several years, this has been added to section 8.2 of the FReM for completeness.
10.1.18	Wording updated to clarify that desktop revaluations are used in year 3 of a revaluation cycle in rare circumstances where no index is available.	To align with the requirement in paragraph 10.1.3.

Appendix 2 - Amendments to the 2026-27 FReM

The table below sets out consequential changes to the 2026-27 FReM published in December 2025 from the 2025-26 FReM published in December 2025. [N.B it does not include minor changes such as correction of typos, changes to cross-referencing etc.).

Paragraph(s)	Change	Reason for change
5.2.3, 5.3.3(e), 5.3.3(f), 5.4.4(a), 5.4.4(ai), 5.4.4(aii), 5.4.6(ciii)	Requirement to report on outcomes as agreed at the latest SR process deleted and replaced with requirement to report against outcomes and metrics as agreed at the Autumn Budget 2025.	To reflect what key outcomes and metrics government entities should report against in their 2026-27 ARA (where entities have outcomes and objectives agreed at Autumn Budget 2025). Please note this change is currently subject to ministerial approval, so may change again.
5.4.4iv)	New requirement added covering efficiencies reporting.	The Public Accounts Committee (PAC) recommended government entities include reporting against the Government Efficiency Framework in their ARAs. This change implements that recommendation. Refer to this document , recommendation 1b) for further details of the PAC recommendation.
9.1.14	Gain/ loss on absorption now recorded in reserves rather than through I&E.	This is an output from the MoG change Technical Working Group. It was agreed the gain/ loss on absorption was better reflected in reserves rather than net expenditure as the gain/ loss is non-operating and does not represent income or expenditure.