



The Financial Reporting Manual 2017-18

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1 Introduction

1.1 Objectives and scope of the Manual

1.1.1 The Government Financial Reporting Manual (FReM) is the technical accounting guide to the preparation of financial statements. It complements guidance on the handling of public funds published separately by the relevant authorities in England and Wales, Scotland and Northern Ireland¹. The Manual is prepared following consultation with the Financial Reporting Advisory Board (FRAB) and is issued by the relevant authorities.

1.1.2 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. (The Department for Health 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.)

1.1.3 In addition, the Welsh Government and the Department of Health, Social Services and Public Safety in Northern Ireland will apply the principles outlined in this Manual in the accounting guidance that they issue in respect of Local Health Boards in Wales, and Health and Social Services Trusts in Northern Ireland.

1.1.4 The Manual is kept under constant review. It is updated to reflect developments in international financial reporting standards (IFRS)², and, where appropriate, comments received from users. The authoritative version of the Manual 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 Manual, they will be issued by the relevant authorities after following due process³. The Manual is available on the gov.uk website.

1.1.5 This Manual applies EU adopted IFRS and Interpretations in effect for accounting periods commencing on or after 1 January 2017.

1.2 Using the Manual

1.2.1 The Manual provides guidance on the application of IFRS, adapted and interpreted for the public sector context. Preparers of financial statements covered by the requirements of this Manual are reminded that:

- a) 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;
- b) in accordance with IAS 1 *Presentation of Financial Statements*, applying the concept of materiality means that a specific disclosure requirement in a Standard

¹ The relevant authorities are HM Treasury, the Welsh Government, the Scottish Government and the Executive Committee of the Northern Ireland Assembly

² The use of IFRS in general text in this Manual should be taken to include International Accounting Standards (IAS) and Interpretations of IAS and IFRS issued by the Standards Interpretations Committee (SIC) or the International Financial Reporting Interpretations Committee (IFRIC).

³ Due process includes consideration of proposed policies by the relevant authorities, followed by consultation with the preparers of financial statements covered by the requirements of this Manual and then consideration by the Financial Reporting Advisory Board.

or in an Interpretation need not be satisfied if the information is not material (disclosures should be limited to those necessary for an understanding of the entity's circumstances); and

- c) for the avoidance of doubt, preparers are reminded that they do not need to develop accounting policies, or provide disclosure notes, in relation to accounting standards that do not apply to their circumstances or are immaterial. However, additional commentary may be provided is helpful to the user and could be in the accounting policy note or next to an individual disclosure note.
- 1.2.2 Preparers are further reminded that the format and content of financial statements need to meet the information needs of the users of those financial statements. For example, therefore, the format and content of resource accounts prepared under section 5 of the Government Resources and Accounts Act 2000 will not be the same as accounts prepared under the Public Finance and Accountability (Scotland) Act 2000, nor the same as accounts of the reportable activities covered by the requirements of this Manual. Preparers should discuss any doubt they have about the appropriate format of their financial statements with the relevant authority.
- 1.2.3 Further guidance and examples on the application of the principles set out in this manual are available on the gov.uk website.

1.3 Budgetary controls

- 1.3.1 Reporting entities that comply with this Manual also prepare budgets on a resource (accruals) basis and are subject to control by the relevant authorities. Entities should refer to *Consolidated Budgeting Guidance 2017-18*, published by HM Treasury.
- 1.3.2 Accounting policies are generally common to both accounting and budgeting. An overview of the main differences between budgets and accounts is included in Annex 3.
- 1.3.3 In selecting relevant accounting policies (see chapter 2), 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.
- 1.3.4 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.
- 1.3.5 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.

1.4 Arm's length bodies which are charities

- 1.4.1 Within the context of this manual, arm's length bodies (ALBs) refers to non-departmental public bodies (NDPBs), trading funds, and other entities designated to the departmental group, excluding the core department and its agencies. ALBs that have charitable status should comply with regulations issued under charities legislation and, where applicable, the Statement of Recommended Practice (SORP) *Accounting by Charities* issued by the Charity Commission.
- 1.4.2 For periods commencing on or after 1 January 2015 there are two SORPs; one based on the new FRS102 and the other based on the Financial Reporting Standard for Smaller Entities (the FRSSE). Charities can choose to use the SORP based on the FRSSE if they meet size criteria. This may mean that departments have to consolidate charity accounts which have been prepared under different SORPs. Departments will need to make necessary material adjustments on consolidation to achieve uniform application of group accounting policies.

- 1.4.3 ALBs which are charities should also follow the principles in this Manual and provide the additional disclosures required by the Manual where these go beyond the SORP.
- 1.4.4 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.
- 1.4.5 Where a sponsoring department considers that the Statement of Financial Activities (SOFA) prepared by its charitable ALBs does not provide sufficient information to monitor and control the ALB or to allow appropriate comparison with its non-charitable ALBs, it may direct the charitable ALB to supplement the SOFA with a summarised income and expenditure account.

1.5 Arm's length bodies which are companies

- 1.5.1 ALBs which are companies should comply with the Companies Act 2006 and should also follow the principles in this Manual and provide the additional disclosures required by the Manual where these go beyond the Companies Act.
- 1.5.2 Sections 381 to 383 of the Companies Act 2006 define the qualifying criteria for the small companies' regime. Subject to the provisions of the Manual, the disclosure exemptions permitted under the small companies' regime will not apply unless specifically approved by the relevant authority.

1.6 Trading funds

- 1.6.1 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. 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.

1.7 Reportable activities

- 1.7.1 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 that might from time to time be made by the relevant authorities.

2 Accounting principles

2.1 Application of generally accepted accounting practice

General

- 2.1.1 The accounting policies contained in this Manual follow generally accepted accounting practice (GAAP) to the extent that it is meaningful and appropriate in the public sector context. Although the term 'GAAP' has no statutory or regulatory authority, for the purposes of this Manual, GAAP is taken to be:
- a) the accounting and disclosure requirements of the Companies Act 2006 (the Companies Act);
 - b) pronouncements by or endorsed by the International Accounting Standards Board (IASB), including the *Framework for the Preparation and Presentation of Financial Statements*, the accounting standards – international accounting statements (IAS) and international financial reporting standards (IFRS) – and interpretations thereof issued by the Standards Interpretations Committee (SIC) or its successor, the International Financial Reporting Interpretations Committee (IFRIC);
 - c) for charities registered in the United Kingdom, regulations issued under charities legislation and, where applicable, the relevant Statement of Recommended Practice (SORP) *Accounting by Charities* issued by the Charity Commission. If they are both registered companies and charities, they must comply with the Companies Act 2006 and the Charities SORP; and
 - d) the body of accumulated knowledge built up over time and promulgated in (for example) textbooks, technical journals and research papers.
- 2.1.2 For the purposes of accounting by the reporting entities covered by this Manual, GAAP is taken to mean primarily those items listed under (a), (b) and (c) above, interpreted as necessary in the light of the body of accumulated knowledge under (d).
- 2.1.3 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 the separate guidance on handling public funds.

Accounting convention

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

No exemptions for smaller entities

- 2.1.5 IFRS for Small and Medium-sized Entities brings together those accounting standards and requirements that are applicable to small and medium-sized entities. Adoption is not available to any entity covered by the requirements of this Manual.

Practical application of guidance

- 2.1.6 The following chapters refer to practical guidance on the application of GAAP where the relevant authorities, in consultation with the preparers of financial statements, feel that such guidance will assist in preparing the financial statements. Annex 4 provides links to guidance which may be useful to preparers. This is practical guidance and it is for the relevant authority to determine whether entities are required to apply it. Relevant authorities might provide additional guidance on request.

2.2 Preparation and presentation of financial statements

IASB's Conceptual Framework for Financial Reporting (Conceptual Framework)

- 2.2.1 The *Conceptual Framework* sets out the principles that the IASB believes should underlie the preparation and presentation of general purpose financial statements. In particular, preparers should be familiar with the objective of financial statements, which is to provide financial information about the reporting entity or reportable activity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to it. For reporting entities and reportable activities the objective of the financial statements is also to provide information about its financial position, financial performance, changes in financial position and cash flows that is useful to a wide range of users to permit them to assess the stewardship and accountability of management for the resources entrusted to them.
- 2.2.2 The key users of the information in the financial statements of reporting entities and for reportable activities covered by this Manual are the relevant authority and Parliament (the Westminster Parliament, the Scottish Parliament, the National Assembly for Wales and the Northern Ireland Assembly, the latter as representatives of the public as well as the voter of resources). Other users include the entity's management board, the entity's audit committee, and the taxpayer.
- 2.2.3 In presenting information in their financial statements, preparers should also have regard to the:
- underlying assumption (financial statements shall be prepared on a going concern basis);
 - qualitative characteristics of financial statements;
 - elements of financial statements;
 - recognition of the elements of financial statements; and
 - measurement of the elements of financial statements.
- 2.2.4 The *Conceptual Framework* notes that financial statements cannot meet all the information needs of users, who may need to consider pertinent information from other sources. However, the provision of financial statements that meet the requirements of the relevant authority and Parliament will also meet most of the needs of other users.
- 2.2.5 Most of the entities covered by the requirements of this Manual will prepare general purpose financial statements that are sufficient for the needs of the key users. However, where departments are required by the relevant legislation to demonstrate accountability to Parliament, they should prepare a statement on parliamentary accountability, which, within the meaning of the *Conceptual Framework*, can be regarded as a special purpose financial report.

Financial statements must give a true and fair view

- 2.2.6 All financial statements prepared in accordance with the requirements of this Manual (excepting the National Insurance Fund cash accounts and those parts of the Consolidated Fund accounts that are prepared on a cash basis):
- a) 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; and
 - b) where, in exceptional circumstances, an entity concludes that compliance with a requirement in the FReM would be so misleading that it would conflict with the objective of the financial statements set out in the Framework it shall depart from that requirement following the principles set out at paragraphs 20-24 of IAS 1. Any material departure from the Manual should be discussed in the first instance with the relevant authority (through sponsoring bodies where appropriate). Particulars

of any departure, the reasons for it and its effects should be disclosed in the financial statements.

- 2.2.7 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.

IASB's Disclosure Initiative

- 2.2.8 Departments should be aware of the IASB *Disclosure Initiative*⁴ to improve presentation and disclosure in financial reporting. The IASB has completed the first stage with the publication of *Disclosure Initiative* (Amendments to IAS 1) which introduces five, narrow-focus improvements to the disclosure requirements in IAS 1 *Presentation of Financial Statements* relating to materiality, order of the notes, subtotals, accounting policies and disaggregation. Further projects under the initiative will consider amendments to IAS 7 *Statement of Cash Flows* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

2.3 The budgeting system

Reporting performance against budgeting rules

- 2.3.1 Departments publish budgetary information in Departmental Reports; they publish reconciliations to budgets in their Supply Estimates; and they are required to report in a note to their annual report and accounts the outturn against Estimate (see section 3.2 of this Manual).

4 <http://www.ifrs.org/Current-Projects/IASB-Projects/Disclosure-Initiative/Pages/Disclosure-Initiative.aspx>

3 Parliamentary Accountability

3.1 Introduction

- 3.1.1 This chapter applies only to departments financed through the Westminster or Northern Ireland Assembly Estimates process. It provides guidance on how departments should account for Supply in the *Statement of Parliamentary Supply* and for outturn against Estimates in the notes supporting the Statement. The Scottish Parliament and the National Assembly for Wales have their own financing arrangements and their own forms of parliamentary accountability.
- 3.1.2 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.
- 3.1.3 General information about the Fiscal Framework, the public spending framework and the Public Expenditure Statistical Analyses is available on the gov.uk website.

3.2 The Statement of Parliamentary Supply

- 3.2.1 Estimates laid before Parliament are based on budgets, which are compiled on a similar basis to the National Accounts. This means that Estimates comply with the European System of Accounts (ESA), the accounting basis for all national accounts in the EU, as adapted and interpreted in the Consolidated Budgeting Guidance. Although similar to IFRS in many respects, there are some significant differences between ESA and IFRS, particularly in relation to recognition of PFI costs and certain provisions.
- 3.2.2 The Statement of Parliamentary Supply follows the budgeting principles used in the Supply Estimates in order to secure comparability.
- 3.2.3 The *Statement of Parliamentary Supply* is the parliamentary accountability statement. For the Westminster departments, it reports the following to Parliament:
- a) in the summary of outturn, 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 in addition report the Estimate and outturn for non-voted expenditure (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.
- 3.2.4 Explanations of variances between the Estimate and outturn and, if relevant, an explanation of any Excess Votes should be given with the Statement of Parliamentary Supply.

The Notes to the Statement of Parliamentary Supply

3.2.5 For Westminster departments the following information must be given in the supporting notes.

Notes 1: Analysis of net outturn by section

3.2.6 These notes follow the format of Part II of the Estimate. The first part analyses net resource outturn by section and between administration costs, programme costs and income, comparing the net total outturn for each section within each budgetary control limit with the Estimate. The second part analyses net capital outturn by section and between gross expenditure and income, comparing the net total outturn for each section within each budgetary control limit with the Estimate. The note should give an explanation of the reasons for variances between the Estimate and outturn.

Note 2: Reconciliation of resource outturn to net operating expenditure

3.2.7 This note reconciles the net resource outturn (from Note 1) to the net operating expenditure shown in the Statement of Comprehensive Net Expenditure. 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 PFI 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

3.2.8 This note reconciles the net resource outturn to the net cash requirement. 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 payable to the Consolidated Fund

3.2.9 This note analyses income payable to the Consolidated Fund and will only be required if non-budget income has arisen during the year. Amounts collected by the department as agent of the Consolidated Fund should not be included, but should be accounted for in a separate Trust Statement if material (see Chapter 8). This note may be published as a note to the Statement of Parliamentary Supply or within an annex to the annual report and accounts.

Northern Ireland departments

3.2.10 The Statement of Parliamentary 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.

3.2.11 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.

Other notes relating to Parliamentary accountability

3.2.12 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.
- 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 1998, 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:
 - i. the financial objective (s) and performance against the financial objective(s);
 - ii. the full cost and unit costs charged in year;
 - iii. the total income received in year;
 - iv. the nature/extent of any subsidies or overcharging.

3.2.13 Departments should note these disclosures will be subject to an audit opinion as described in 5.3.4.

3.3 Accounting for Supply

3.3.1 Supply is the means by which parliamentary authority is secured for most government expenditure. Supply is voted on an annual basis in Estimates and in the Appropriation Acts (Budget Act in Northern Ireland). Further information is available in the *Supply Estimates Guidance Manual* on the gov.uk website and in the *Supply Estimates Guidance Manual in Northern Ireland*.

3.3.2 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. 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, but this will appear in the following year's accounts.

- 3.3.3 Departments will also be required to complete a return to the Exchequer Funds and Accounts 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.

4 Accounting boundaries

4.1 Accounting boundaries

- 4.1.1 Entities defined in 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.
- 4.1.2 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. 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. 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.
- 4.1.3 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 IAS 39. 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.
- 4.1.4 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.

4.2 Business combinations

Applicability

- 4.2.1 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.
- 4.2.2 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.

- 4.2.3 IFRS 3 applies to all combinations involving an entity or entities within the public sector with an entity outside the sector.
- 4.2.4 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

- 4.2.5 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.
- 4.2.6 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).
- 4.2.7 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.
- 4.2.8 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.
- 4.2.9 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.
- 4.2.10 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.
- 4.2.11 For all adjustments required to achieve uniformity of accounting policies, the double entry will be to the General Fund (or equivalent).

Disclosure

- 4.2.12 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

- 4.2.13 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

- 4.2.14 Transfers of non-current assets that are not machinery of government changes⁵ or part of a transfer of functions should be transferred at fair value following the fair value measures in IFRS 3.
- 4.2.15 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.

⁵ Machinery of Government changes are those changes that transfer responsibility for a function from one part of the public sector to another.

5 Form and content of the annual report and accounts

5.1 Introduction

5.1.1 This chapter sets out the requirements for the format and content of the annual reports and accounts of the reporting entities covered by the requirements of this Manual, with the exception of pension schemes (see chapter 9). The annual report and accounts comprises:

- a) The Performance Report (section 5.2);
- b) The Accountability Report (section 5.3); and
- c) The Financial Statements (section 5.4).

Reporting entities must prepare and publish an annual report and accounts as a single document unless the relevant authorities have specifically agreed otherwise. Illustrative financial statements are provided on the gov.uk website⁶.

5.1.2 This chapter does not set out the requirements for the format and content of the annual reports and accounts of reportable activities, which are set out in the relevant accounts directions.

5.1.3 Departments financed through the Westminster or the Northern Ireland Assembly Estimates process should refer to chapter 3 for guidance on the Statement of Parliamentary Supply. These departments should also refer to the illustrative Department Yellow.

5.1.4 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 chapter. 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.

5.1.5 In the case of **executive agencies** and **trading funds**, the preparation of an annual report as described above will satisfy the requirement for the preparation of a Foreword and a report 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. There is therefore no need to produce a separate report in addition to the annual report described above. The document presented to Parliament should be described as “Annual Report and Accounts”.

5.1.6 In the case of other **ALBs** that are not incorporated as companies but do already have a statutory obligation to prepare a separate report, the preparation of an annual report described herein will satisfy the requirement for the production of this separate report. This annual report will be presented to Parliament with the accounts as a combined document described as the “Annual Report and Accounts”. Where there is currently no statutory requirement for the preparation of a separate report, ALBs will prepare an annual report as described herein for inclusion in the accounts which will be described as the “Annual Report and Accounts” and presented to Parliament.

5.1.7 ALBs that are incorporated as companies should comply with the requirements of the Companies Act 2006 in full and are not required to comply with the requirements of this chapter.

⁶ Illustrative pro-forma financial statements are provided for Department Yellow, Agency Pink, NDPB Green, Trust Statement Purple and Pension Scheme Magenta.

- 5.1.8 ALBs which are charities are not required to comply with the requirements of this chapter. They should follow the requirements of the Charities' SORP and regulations made under Charities legislation.
- 5.1.9 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 Parliament⁷ as to do so would be a breach of Parliamentary privilege.

5.2 *The Performance Report*

Scope of the performance report

- 5.2.1 The purpose of the performance section of the annual report is to provide information on the entity, its main objectives and strategies and the principal risks that it faces. The requirements of the performance report are based on the matters required to be dealt with in a Strategic Report as set out in Chapter 4A of Part 15 of the Companies Act 2006. 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.
- 5.2.2 Westminster departments are also required to follow annual guidance on reporting requirements promulgated by HM Treasury through PES papers.
- 5.2.3 The performance report must provide a fair, balanced and understandable analysis of the entity's performance, in line with the overarching requirement for the annual report and accounts as a whole to be fair, balanced and understandable (paragraph 5.3.12 of this manual).
- 5.2.4 Auditors will review the performance report for consistency with other information in the financial statements.
- 5.2.5 The performance report shall be signed and dated by the Accounting Officer or Chief Executive.
- 5.2.6 The performance report is required to have two sections: an 'Overview' and a 'Performance Analysis'.

Overview

- 5.2.7 The purpose of the "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, the key risks to the achievement of its objectives and how it has performed during the year. The 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 to be met.
- 5.2.8 As a minimum, the 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;
 - The key issues and risks that could affect the entity in delivering its objectives;
 - (Primarily for ALBs) an explanation of the adoption of the going concern basis where this might be called into doubt, for example where there are significant net

⁷ Parliament is used in this context to mean the Westminster Parliament, the Scottish Parliament, the National Assembly for Wales and the Northern Ireland Assembly.

liabilities what will be financed from resources voted by Parliament in the future;
and

- A performance summary.

Performance analysis

5.2.9 The purpose of the “Performance analysis” is for entities to provide a detailed performance summary of how their entity measures its performance, more detailed integrated performance analysis and long term expenditure trend analysis where appropriate.

5.2.10 As a minimum, the performance analysis must include:

- Information on how the entity measures performance i.e. what the entity sees as its key performance measures and how it checks performance against those measures;
- A more detailed analysis and explanation of the development and performance of the entity during the year. This analysis is required to utilise a wide range of data including key financial information from the financial statements section of the accounts;
- Reporting entities are expected to comply with mandatory sustainability reporting requirements. Further information on the reporting methodology will be issued through PES guidance.⁸ It is envisaged that such reporting will be integral throughout the annual report and account and not a separate standalone report; and
- Performance on other matters as promulgated by HM Treasury in PES papers.

5.2.11 Entities falling within the scope of reporting under the Greening Government Commitments (i.e. departments, non-ministerial departments, agencies and ALBs) 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 for greenhouse gas emissions, waste minimisation and management and the use of finite resources and their related expenditure. Inclusion of reporting against the sustainability targets will fulfil the requirements regarding greenhouse emissions in Schedule 7 of SI 2013 No. 1970.

5.3 The Accountability Report

Scope of the accountability report

5.3.1 The purpose of the accountability section of the annual report is to meet key accountability requirements to Parliament. 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,

⁸ 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 Northern Ireland Executive. 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. 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.

and in a Remuneration Report, as set out in Chapter 6 of the Companies Act 2006 and SI 2013 No. 1981.

- 5.3.2 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.
- 5.3.3 Westminster departments are also required to follow annual guidance on reporting requirements promulgated by HM Treasury through PES papers.
- 5.3.4 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 Westminster or Northern Ireland Assembly Estimates process, the Statement of Parliamentary Supply and supporting notes, including any notes reported in an annex to the financial statements;
 - Regularity of expenditure
 - Disclosures on parliamentary accountability as detailed in 3.2.12;
 - Single total figure of remuneration for each minister and director;
 - 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.
- 5.3.5 The accountability report shall be signed and dated by the Accounting Officer or Chief Executive.
- 5.3.6 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. 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.

Corporate governance report

- 5.3.7 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.
- 5.3.8 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

- 5.3.9 The directors' report must include the following, unless disclosed elsewhere in the annual report and accounts in which a cross-reference may 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 chairman and chief executive unless disclosed elsewhere in the annual report;
- 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; 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

- 5.3.10 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 1.
- 5.3.11 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.
- 5.3.12 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

- 5.3.13 All reporting entities covered by the requirements of this Manual shall prepare a governance statement. Guidance on content is provided for specific sectors and jurisdictions governed by the Relevant Authorities⁹. 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.
- 5.3.14 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.

Remuneration and staff report

⁹ Managing Public Money (including Annex 3.1), Scottish Public Finance Manual, Managing Public Money Northern Ireland, The Annual Governance Statement; Rough Guide for Practitioners (CIPFA Finance Advisory Network), Annual guidance issued by the Department of Health and Monitor.

- 5.3.15 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.
- 5.3.16 In addition the report provides details on remuneration and staff that Parliament and other users see as key to accountability.
- 5.3.17 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. Non-disclosure is acceptable only where publication would:
- be in breach of any confidentiality agreement;
 - prejudice the rights, freedom or legitimate interest of the individual;
 - cause or be likely to cause substantial damage or substantial distress to the individual or another, and that damage or distress would be unwarranted; or
 - affect national security or where an individual may be at risk if his or her name is disclosed.
- 5.3.18 In other cases, it would be for the staff member to make a case for non-disclosure, which should be considered by the employer on a case-by-case basis. Where non-disclosure is agreed, the fact that certain disclosure has been omitted should be disclosed.
- 5.3.19 Westminster departments are also required to follow guidance contained in the annual Employer Pension Notice issued by the Cabinet Office.

Remuneration policy

- 5.3.20 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

- 5.3.21 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

5.3.22 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

5.3.23 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

5.3.24 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 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. 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

5.3.25 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 for any significant changes in the ratio between the current and prior year.

5.3.26 For departments, the calculation should exclude arm's length bodies within the consolidation boundary. See Annex 4 for further guidance.

Staff report

5.3.27 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 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;
- f) Expenditure on consultancy;
- g) Off-payroll engagements – summary data on the use of off-payroll arrangements to meet requirements promulgated by HM Treasury in PES guidance; and
- h) 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

5.3.28 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) parliamentary accountability disclosures as detailed in 3.2.12
- d) (all entities) the Certificate and Report of the Comptroller and Auditor General to the House of Commons.

5.3.29 The requirements for (a) to (c) are detailed in Chapter 3.

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

- 5.3.30 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.
- 5.3.31 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.
- 5.3.32 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.
- 5.3.33 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 quite separate from it.
- 5.3.34 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 group¹⁰. 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.

5.4 The Financial Statements

5.4.1 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. 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. 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*

¹⁰ 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

IFRS 8 *Operating Segments*.

- 5.4.2 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.
- 5.4.3 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.
- 5.4.4 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.

Statement of Comprehensive Net Expenditure

- 5.4.5 IAS 1 requires entities to prepare a Statement of Comprehensive Income. This Manual adapts IAS 1 as set out below.
- 5.4.6 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.
- 5.4.7 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.
- 5.4.8 ALBs which are trading funds should prepare a Statement of Comprehensive Income.
- 5.4.9 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.

Statement of Financial Position

- 5.4.10 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.
- 5.4.11 The Statement of Financial Position must be signed by the Accounting Officer or, where relevant, Chief Executive.

Statement of Cash Flows

- 5.4.12 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.
- 5.4.13 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, finance leases and PFI contracts);

- 5.4.14 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.
- 5.4.15 In analysing financing, entities should adjust for debtors and creditors relating to the capital expenditure in respect of finance leases and on-balance sheet PFI contracts.

Statement of Changes in Equity

- 5.4.16 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.
- 5.4.17 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.
- 5.4.18 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.
- 5.4.19 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).

Notes to the accounts

- 5.4.20 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. Notes should only be included where additional information is material, i.e. where its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. 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. 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. 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.
- 5.4.21 **Accounting policies** – 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. 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]. 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. 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.

- 5.4.22 **Operating Segments** – Entities should provide an analysis of its operating segments, products and services, the geographical areas in which they operate, and their major customers in accordance with the requirements of IFRS 8.
- 5.4.23 **Expenditure** – 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 5.3.27b) in the Accountability Report.
- 5.4.24 **Cash and cash equivalents** – 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)¹¹ and balances held in commercial banks.
- 5.4.25 **Financial instruments**- 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.
- 5.4.26 **Commitments under PFI contracts** – 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. For 'on-balance sheet' service concession arrangements the relevant IAS 17 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.
- 5.4.27 **Information about related undertakings** – 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 holdings¹² 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.
- 5.4.28 **Third party assets** – 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

¹¹ 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.

¹² 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.

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 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.

5.5 Presentation to Parliament and publication

- 5.5.1 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.
- 5.5.2 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.
- 5.5.3 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.
- 5.5.4 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.
- 5.5.5 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.
- 5.5.6 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.
- 5.5.7 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.
- 5.5.8 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.

- 5.5.9 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.
- 5.5.10 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.

6 Applicability of accounting standards

6.1 EU adopted IFRS

6.1.1 A list of EU adopted IFRS is shown in Table 6.1, 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 6.1

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 First-time Adoption of IFRS		•		
IFRS 2 Share-based Payments	•			
IFRS 3 Business Combinations		•		
IFRS 4 Insurance Contracts	•			
IFRS 5 Non-current Assets Held for Resale and Discontinued Operations		•		
IFRS 6 Mineral Resources	•			
IFRS 7 Financial Instruments: Disclosures	•			
IFRS 8 Operating Segments	•			
IFRS 10 Consolidated Financial Statements			•	•
IFRS 11 Joint Arrangements			•	•
IFRS 12 Disclosure of Interests in Other Entities			•	•
IFRS 13 Fair Value Measurement ¹³	•			
IAS 1 Presentation of Financial Statements		•		
IAS 2 Inventories		•		
IAS 7 Statement of Cash Flows		•		
IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors	•			
IAS 10 Events after the Reporting Period		•		
IAS 11 Construction contracts	•			

¹³ 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
IAS 12 Income Taxes	•			
IAS 16 Property, plant and equipment		•	•	
IAS 17 Leases	•			
IAS 18 Revenue	•			
IAS 19 Employee Benefits		•	•	
IAS 20 Accounting for government grants and disclosure of government assistance		•		
IAS 21 The effects of changes in foreign exchange rates		•		
IAS 23 Borrowing Costs		•		
IAS 24 Related party disclosures		•	•	
IAS 26 Accounting and Reporting by Retirement Benefit Plans		•	•	
IAS 27 Separate Financial Statements			•	•
IAS 28 Investments in Associates and Joint Ventures			•	•
IAS 29 Financial reporting in hyper-inflationary economies		•		
IAS 32 Financial Instruments: Disclosure and Presentation		•		
IAS 33 Earnings per share	•			
IAS 34 Interim Financial Reporting	•			
IAS 36 Impairment of Assets		•	•	
IAS 37 Provisions, Contingent Liabilities and Contingent Assets		•	•	
IAS 38 Intangible Assets			•	
IAS 39 Financial Instruments: Recognition and Measurement		•		
IAS 40 Investment Property		•		
IAS 41 Agriculture	•			

6.2 Interpretations and adaptations for the public sector context

- 6.2.1 Table 6.2 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.
- 6.2.2 Chapter 10 of this Manual provides additional guidance on adaptations and interpretations for the Whole of Government Accounts.

Table 6.2

IFRS 1 First-time Adoption of International Financial Reporting Standards	
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 Business Combinations	
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 4 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 Non-current Assets Held for Sale and Discontinued Operations	
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 10 Consolidated Financial Statements	
Adaptations	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. Agencies should follow the requirements of IFRS 10 only if the subsidiaries are within the controlling department's consolidation boundary. ALBs should apply IFRS 10 without adaptation. Chapter 4 provides guidance on the departmental accounting boundary and application of consolidation standards.
IFRS 11 Joint Arrangements	
Adaptations	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. 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 IAS 39. This includes all interests in bodies classified as public corporations by the ONS, which are within the scope of Managing Public Money principles. 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. Departments and agencies should apply IFRS 11 without adaptation to bodies classified to the private sector and rest of the world by the ONS. ALBs should apply IFRS 11 without adaptation.

	Chapter 4 provides guidance on the departmental accounting boundary and application of consolidation standards.
IFRS 12 Disclosure of Interests in Other Entities	
Adaptations	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. Chapter 4 provides guidance on the departmental accounting boundary and application of consolidation standards.
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 5 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 7 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	<p>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.</p> <p>Chapter 5 details the required format of the Statement of Cash Flows.</p>
IAS 10 Events after the Reporting Period	
Interpretations	<p>(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.</p> <p>(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.</p>
IAS 16 Property, Plant and Equipment	
Adaptations	<p>IAS 16 is adapted to specify the following valuation bases for property, plant and equipment:</p> <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	<p>(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</p> <p>(2) It is not necessary to disclose the historical cost carrying amounts (where available)</p> <p>Further application guidance on accounting for property, plant and equipment, including heritage assets, networked assets and PPP arrangements, is included in chapter 7.</p>
IAS 19 Employee benefits	
Adaptations	<p>(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 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 8 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</p>
IAS 21 The Effects of Changes in Foreign Exchange Rates	
Interpretations	The presentational currency will be the same as the functional currency i.e. pounds sterling.
IAS 23 Borrowing Costs	
Interpretations	Borrowing costs in respect of qualifying assets held at fair value shall be expensed.
IAS 24 Related Party Disclosures	
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 2.</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>

	(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.
IAS 26 Accounting and Reporting by Retirement Benefit Plans	
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 c. in a separate actuarial report which is attached to the accounts. <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 9 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 IAS 39. 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.
IAS 36 Impairment of Assets	
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 7 provides additional guidance on the classification of impairments for budgetary purposes and application guidance.
IAS 37 Provisions, Contingent Liabilities and Contingent Assets	
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 3 details additional requirements for remote obligations outside the scope of IAS 37 to be reported to Parliament.
IAS 38 Intangible Assets	
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 7 provides application guidance for Carbon Reduction Commitment (CRC) Energy Efficiency Scheme
IAS 39 Financial Instruments: Recognition and Measurement	
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 financial instrument discount rate set by HM Treasury (promulgated in PES papers) as applied to the flows expressed in current prices.
IAS 40 Investment Properties	
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.

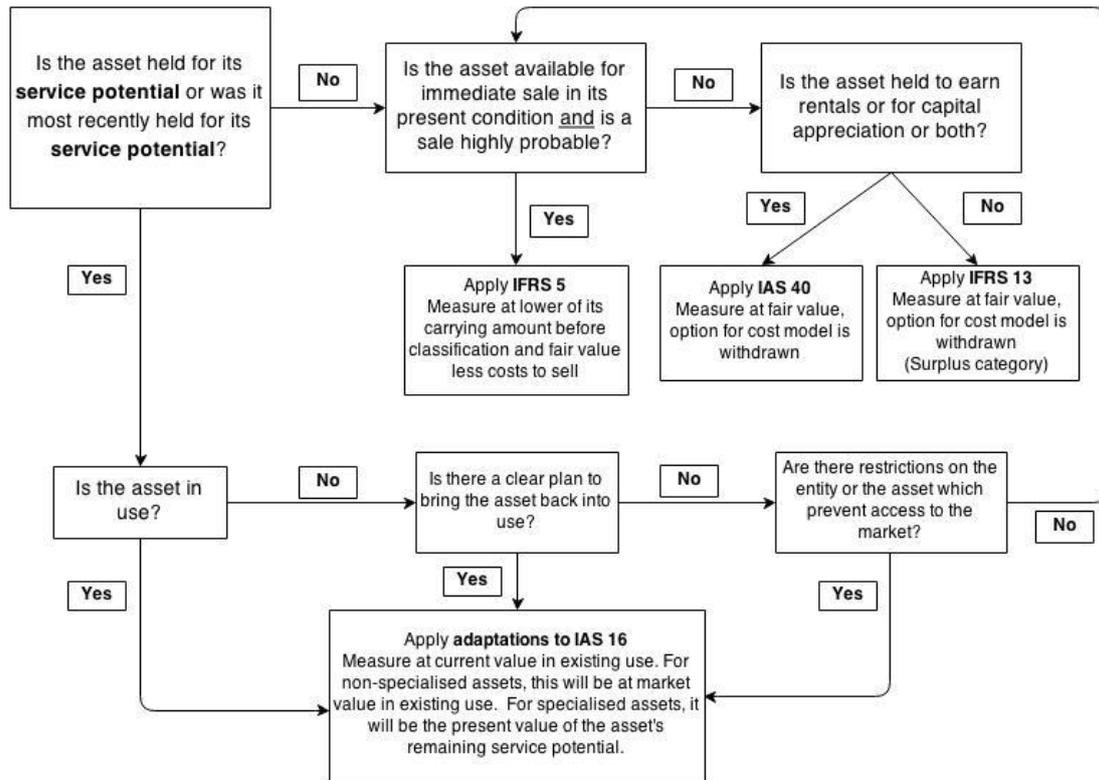
7 Further guidance on accounting for assets and liabilities *Property, plant and equipment (PPE)*

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

- 7.1.1 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.
- 7.1.2 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
- 7.1.3 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.
- 7.1.4 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 (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.
- 7.1.5 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.
- 7.1.6 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.
- 7.1.7 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.
- 7.1.8 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.
- 7.1.9 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.
- 7.1.10 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.
- 7.1.11 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.
- 7.1.12 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.
- 7.1.13 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.
- 7.1.14 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

7.1.15 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

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

7.1.17 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.

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

7.1.19 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.

7.1.20 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.

- 7.1.21 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.
- 7.1.22 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

- 7.1.23 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

- 7.1.24 Assets donated by third parties (see also paragraph 7.1.29 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.
- 7.1.25 To qualify for treatment as a donated asset there should be no consideration given in return.
- 7.1.26 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.

These types of asset should be accounted for in accordance with IAS 16 in the same way as other assets of that general type.

- 7.1.27 Donated assets should be revalued, depreciated and subject to impairment review in the same way as other non-current assets.
- 7.1.28 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

- 7.1.29 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

- 7.1.30 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).
- 7.1.31 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.
- 7.1.32 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

- 7.1.33 Operational heritage assets should be valued in the same way as other assets of that general type (buildings, for example).
- 7.1.34 Non-operational heritage assets should be valued subject to the requirements set out in paragraphs 7.1.35 to 7.1.38 below.
- 7.1.35 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.

- 7.1.36 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.
- 7.1.37 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.
- 7.1.38 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

- 7.1.39 Depreciation is not required on heritage assets which have indefinite lives.
- 7.1.40 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

- 7.1.41 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

- 7.1.42 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.
- 7.1.43 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.

7.1.44 An example of a limitation to be disclosed under paragraph 7.1.42 (ii) (d) would be where an asset has a particular provenance, the effect of which is not fully captured by valuation.

7.1.45 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.

7.1.46 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;
- e) the value of heritage assets acquired by donation;
- f) the carrying amount of heritage assets disposed of in the period and the proceeds received; and
- g) 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.

7.1.47 The disclosures required by paragraphs 7.1.41 to 7.1.45 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

7.1.48 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.

7.1.49 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
- h) 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.

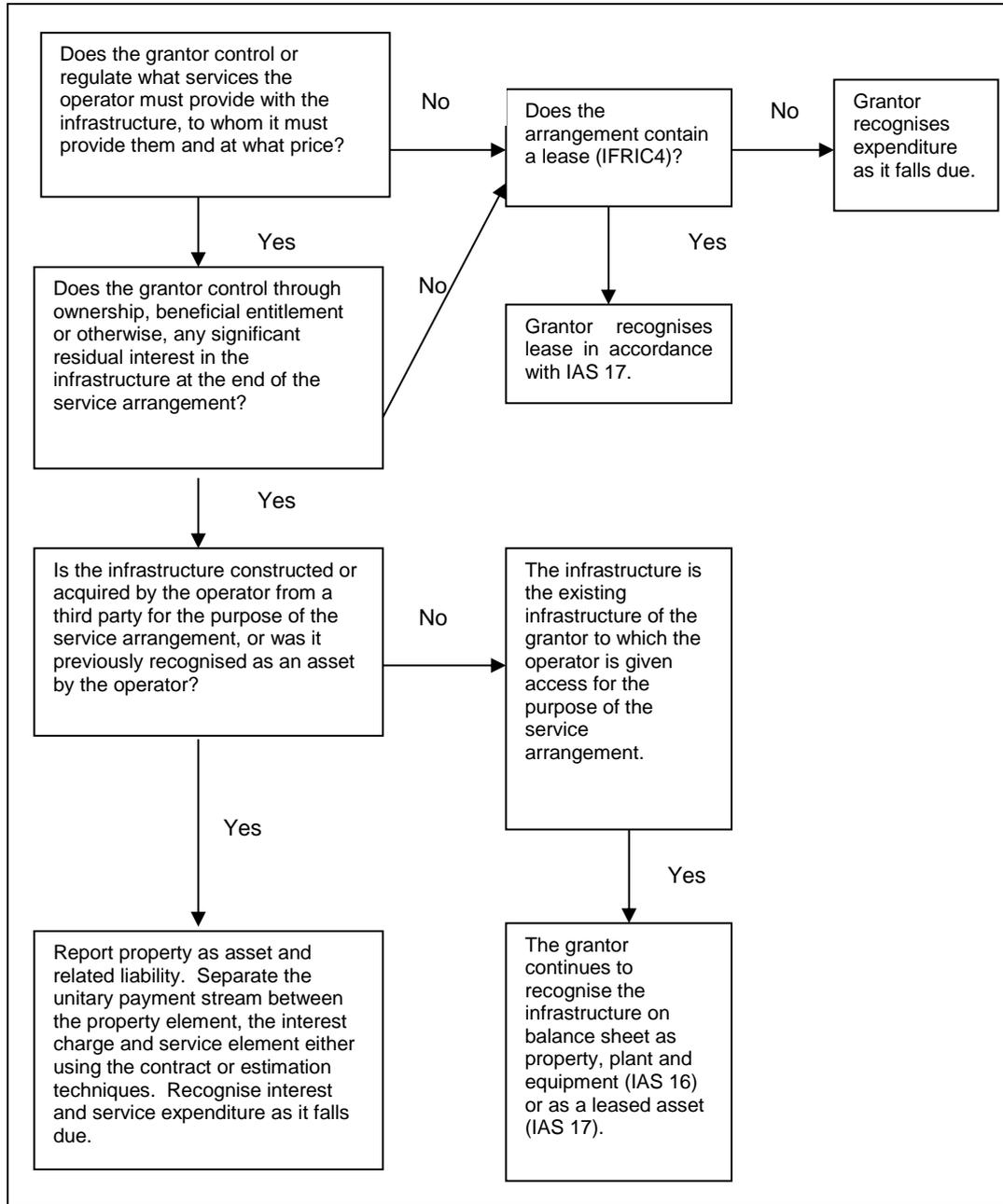
7.1.50 IFRIC 12 (Application Guidance paragraph 3) notes that, in determining the applicability of the first condition, non-substantive features (such as price capping that would apply only in remote circumstances) should be ignored and the substance of the arrangement considered.

7.1.51 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.

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 7.1.48 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

7.1.52 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
- i) 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.

7.1.53 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:

- j) it is probable that future economic benefits associated with the asset will flow to the organisation; and
- k) 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

7.1.54 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 7.1.51), the asset will be initially measured following the guidance in IAS 17, 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
- l) 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.

7.1.55 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;
- m) 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
- n) 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.

- 7.1.56 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).
- 7.1.57 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.
- 7.1.58 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.
- 7.1.59 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.
- 7.1.60 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.
- 7.1.61 Revenue received under any revenue sharing provision in the service concession arrangement should be recognised when all the conditions as laid down in IAS 18 have been satisfied.
- 7.1.62 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 IAS 39.
- 7.1.63 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).

Disclosure

- 7.1.64 The disclosure requirements in respect of PPP arrangements, including PFI contracts, are set out in chapter 5 of this manual.

7.2 Intangible assets

- 7.2.1 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.
- 7.2.2 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.
- 7.2.3 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.

7.3. Impairments

- 7.3.1 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.
- 7.3.2 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.
- 7.3.3 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.
- 7.3.4 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.
- 7.3.5 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
- 7.3.6 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.

7.4 Inventories

- 7.4.1 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

- 7.4.2 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

- 7.4.3 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.
- 7.4.4 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)

- 7.4.5 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.

8 Further guidance on accounting for income and expenditure

8.1 Income

Definitions

8.1.1 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.

8.1.2 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.

8.1.3 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

8.1.4 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

8.1.5 All income should be recognised in the Statement of Comprehensive Net Expenditure in accordance with IAS 18. 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

8.1.6 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 in the United

Kingdom, should be treated as income and recorded on a gross basis in the Statement of Comprehensive Net Expenditure.

- 8.1.7 In the case of EU twinning project receipts, amounts to be transferred to other member states to mandated bodies as EU funding for their part in the project 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.
- 8.1.8 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)

- 8.1.9 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.
- 8.1.10 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

- 8.1.11 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.
- 8.1.12 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

- 8.1.13 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.

8.2 Consolidated Fund revenue

- 8.2.1 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

- 8.2.2 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.
- 8.2.3 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.
- 8.2.4 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.
- 8.2.5 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.
- 8.2.6 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.
- 8.2.7 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

- 8.2.8 Fines and penalties are economic benefits payable to government for breaches of laws or regulations where there is a statutory obligation to pay.
- 8.2.9 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.
- 8.2.10 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

- 8.2.11 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.
- 8.2.12 The intention of the underlying legislation¹⁴ 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.
- 8.2.13 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.
- 8.2.14 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.
- 8.2.15 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 IAS 39.
- 8.2.16 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).

Presentation

- 8.2.17 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

¹⁴ As required by The Exchequer and Audit Departments Act 1921

of the statement of affairs relating to the collection and allocation of taxes, duties fines and penalties and any other revenues and related expenditure.

- 8.2.18 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

8.2.19 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.

8.3 Expenditure

EU Expenditure

- 8.3.1 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.
- 8.3.2 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

- 8.3.3 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.
- 8.3.4 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.

- 8.3.5 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.

9 Further guidance on pensions accounting

9.1 Introduction

- 9.1.1 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)
- Armed Forces Pension Scheme (AFPS)
- NHS Superannuation Scheme
- Teachers' Superannuation Scheme
- United Kingdom Atomic Energy Authority Superannuation Schemes
- Judicial Pension Scheme
- Department for International Development – Overseas Superannuation Scheme
- Research Councils' Pension Scheme
- DFP Northern Ireland Superannuation and Other Allowances
- HPSS Northern Ireland Superannuation Scheme
- Police Service Northern Ireland Pension Scheme
- Northern Ireland Teachers' Superannuation Scheme
- Scottish NHS Superannuation Scheme
- Scottish Teachers' Superannuation Scheme
- Royal Mail Statutory Pension Scheme

- 9.1.2 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.

9.2 Accounting for termination benefits

- 9.2.1 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).
- 9.2.2 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.
- 9.2.3 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

- 9.2.4 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.
- 9.2.5 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

- 9.2.6 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

- 9.2.7 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

- 9.2.8 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.
- 9.2.9 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

- 9.2.10 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.
- 9.2.11 Amounts receivable from employers on an on-going basis are to be regarded as “other income” in the Statement of Comprehensive Net Expenditure.

9.3 Pensions accounting by the public sector pension schemes

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

Disclosures

9.3.2 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.

9.3.3 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

9.3.4 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;
- [Combined¹⁵]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)

9.3.5 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.

9.3.6 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;

¹⁵ These statements are described as "Combined" if the statement reflects transactions relating to both pensions and early departure costs.

- 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.

9.3.7 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.

10 Whole of Government Accounts

10.1 Introduction

- 10.1.1 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.
- 10.1.2 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.

10.2 Accounting standards applied to Whole of Government Accounts

- 10.2.1 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

- 10.2.2 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, operating expenditure, other operating income, operating surplus, surplus/(deficit) on the disposal of fixed assets, interest receivable and similar income, interest payable and similar charges and the surplus or deficit 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 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

- 10.2.3 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

10.2.4 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

10.2.5 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

10.2.6 In accounting for public service pension liabilities, WGA follows the requirements of IAS 19. IAS 19 is interpreted 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) contributions from employees are to be shown in the financial statements as a deduction from the current service cost;
- c) 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
- d) 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

10.2.7 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.

IAS 39 Financial instruments – recognition and measurement

- 10.2.8 IAS 39 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.

10.3 Other reporting requirements

Revenue from taxes and duties

- 10.3.1 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.
- 10.3.2 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.
- 10.3.3 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

- 10.3.4 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.
- 10.3.5 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

- 10.3.6 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 5.2.15, 5.4.16-19 and 5.4.39 of the FReM shall not apply to the Whole of Government Accounts

Commentary accompanying Whole of Government Accounts

- 10.3.7 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

10.3.8 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

10.3.9 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.

10.3.10 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).

10.4 Audit and publication

10.4.1 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.

10.4.2 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.

10.4.3 A governance body set up specifically to consider WGA will review the accounts.

ANNEX 1

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 net resource outturn, application of resources, changes in taxpayers' equity 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]*; and

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

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.

* Delete as appropriate.

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 net resource outturn, application of resources, changes in taxpayers' equity 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; and

prepare the [accounts] on a going concern basis.

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.

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 net resource outturn, application of resources, changes in taxpayers' equity 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; and
- prepare the accounts on a going concern basis.

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.

ANNEX 2

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 3

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 below shows the main differences between the SoCNE in resource accounts and the resource budget.

Table 2 shows the main difference between capital budgets and additions to non-current assets and investment in resource accounts

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 FReM.

ANNEX 4

Links to relevant guidance

FReM supporting documents include:

- FReM amendment record
- Illustrative financial statements;
- Review of new IFRS
- IFRS group accounting standards application guidance
- Additional guidance for accounting for the trunk road network under IAS 16
- Guidance on asset valuation
- Recognition point for all tax and duty heads
- Guidance on the accounting for business combinations under common control

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

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/publications/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/uploads/system/uploads/attachment_data/file/503365/Consolidated_budgeting_guidance_2016-17.pdf

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