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**GOVERNMENT FINANCIAL REPORTING  
MANUAL (FReM) EXPOSURE DRAFT No:**

**(09)03**

EXPOSURE DRAFT OF PROPOSED

**AMENDMENTS TO THE FReM**

**ALIGNING BUDGETS, ESTIMATES AND  
ACCOUNTS – PROPOSED FReM  
AMENDMENTS FOR 2010-11 RE COST OF  
CAPITAL CHARGES, IMPAIRMENTS AND  
TRUST ACCOUNTS**

Comments to be received by 28 August 2009



**HM TREASURY**

## **ASSURANCE & FINANCIAL REPORTING POLICY TEAM HM TREASURY**

This exposure draft of proposed amendments to the Government Financial Reporting Manual (FReM) is published by HM Treasury for comment only. The proposals may be modified in the light of comments received in this consultation process before being presented to the Financial Reporting Advisory Board for its approval. Final proposals approved by the Financial Reporting Advisory Board will be published as amendments to the FReM from the proposed effective date.

Comments on this exposure draft should be submitted in writing so as to be received by 28 August 2009. Respondents are asked to send their comments electronically to [FReM.consultation@hm-treasury.gov.uk](mailto:FReM.consultation@hm-treasury.gov.uk).

All responses will be published on the FReM website unless the respondent requests confidentiality.



# HM TREASURY

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# **Proposed amendments to the FReM**

## **Introduction**

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Assurance & Financial Reporting Policy team, HM Treasury, has published this exposure draft of proposed amendments to the Government Financial Reporting Manual (FReM) as part of its ongoing work in ensuring that the Manual reflects the latest developments in government financial reporting.

## **Structure of exposure draft**

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The exposure draft includes at pages 4 to 6 an explanation of why the amendments are proposed. Pages 8 and 9 provide a summary of the proposed amendments for each FReM chapter affected, with the detailed drafting changes set out in annexes A to G.

## **Invitation to comment**

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HM Treasury invites comments on the proposed amendments. It would particularly welcome answers to the questions set out at page 7. Comments are most helpful if they:

- (a) Answer the question as stated;
- (b) Indicate the specific paragraph or paragraphs to which they relate;
- (c) Contain a clear rationale; and
- (d) Describe any alternative HM Treasury should consider.

HM Treasury will consider all comments received in writing by 28 August 2009. In considering the comments, HM Treasury will base its conclusions on the merits of the arguments for and against each alternative, not on the number of responses supporting each alternative.

## **ALIGNING BUDGETS, ESTIMATES AND ACCOUNTS – PROPOSED FREM AMENDMENTS FOR 2010-11 RE COST OF CAPITAL CHARGES, IMPAIRMENTS AND TRUST ACCOUNTS**

|   |   |
|---|---|
| <p>Why the amendment is proposed</p>          | <p>The Financial Reporting Advisory Board agreed in principle at its November 2008 meeting to certain proposed FREM changes necessary to aid alignment of budgets, Estimates and accounts. (One proposal, regarding the treatment of impairments, obtained agreement from the Board in principle with the exception of the Scottish Government Finance representative who said that this proposal would be considered when the detailed paper on this and other proposals is brought back to Board, along with detailed supporting papers, this autumn).</p> <p>Since then the Government announced in its March 2009 Memorandum to Parliament (Cm 7567) that it proposed to phase implementation of the Alignment proposals, with full implementation of the major changes, such as consolidation of NDPBs, to take place in 2011-12 accounts, and some other changes discussed at the November 2008 meeting, affecting cost of capital charges and impairments, being implemented in 2010-11 accounts, along with a new proposal for ‘Trust Accounts’ to be used to account for revenue (and some associated expenditure) collected by entities as agents on behalf of the Consolidated Fund (primarily taxation or fines and penalties).</p> |
| <p>Paragraph(s) affected by the amendment</p> | <p>2.4.6, 6.2.6, 6.2.21, 6.2.44, 6.2.60(b), Ch 11 contents, 11.3.6, 11.5.3 to 11.5.15 re cost of capital charge.</p> <p>3.2.6, 6.2.16, 14.2.1, 14.2.15, and various in Chapter 8 re impairments of property, plant and equipment.</p> <p>Chapter 13 <i>Revenue from taxes and duties</i> re Trust Accounts.</p>   |
| <p>Proposed date</p>                          | <p>2010-11</p>  |

## Background

The Alignment Project seeks to strengthen Parliament's role on public spending by simplifying the basis on which the Government plans, seeks Parliamentary approval, and accounts for, public spending. After extensive consultation with departments, a number of proposals for consequential FReM changes for 2010-11 were put to, and received agreement in principle from, the FRAB in November 2008\*. These were:

- Statement of Parliamentary Supply to be reformatted to reflect changes in Estimates arising from the new Parliamentary controls under alignment;
- Departmental resource accounting boundary to be extended to encompass all bodies classified to the central government sector by the ONS;
- Cost of capital charges to be removed from budgets, Estimates and accounts;
- Impairments of property, plant and equipment to be scored to the OCS if they arise from a clear consumption of economic benefit, with a corresponding transfer from the revaluation reserve to the general fund.

After further consultation with departments, it was decided that the implementation of the alignment proposals should be phased with full implementation of the major changes, such as consolidation of NDPBs, to take place in 2011-12 accounts. This should lessen burdens on departments and also provide the opportunity to use 2010-11 for 'dry-running'. Thus, while it is still intended to have all the proposed FReM changes agreed by December 2009, the major changes regarding format (the revised Statement of Parliamentary Supply and the extension of the departmental consolidation boundary) will only apply to published accounts for 2011-12 onwards. Changes introduced in 2010-11 will largely impact on budgets, although there will be some consequential impact on accounts. This Exposure Draft deals with changes in respect of the cost of capital charge and impairments which are still planned for implementation in 2010-11.

### Trust accounts

This Exposure Draft also deals with a further source of misalignment regarding revenue (and some associated expenditure) collected by entities that by statute or convention is due to the Consolidated Fund and where the entity undertaking the collection is consequently acting as agent rather than principal on behalf of the Consolidated Fund. The majority of this income is from licences and taxation, with a significant minority coming from fines and penalties. Current accounting arrangements vary widely. Some departments include the income they receive in their operating cost statement and balance sheet; some account for debtors and creditors,

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\* The Scottish Government Finance representative indicated that the proposal in respect of impairment of assets would be considered when the detailed paper on this and other proposals was brought back to the Board in Autumn 2009.

but do not include any transactions in the OCS; and others do not include any reference of any kind to this income in their accounts.

The proposal is that, if material to the collecting entity, these forms of income should be separately accounted for in 'trust statements', similar in nature to the statements already prepared to account for tax and vehicle licensing receipts by HM Revenue and Customs and the DVLA. If not material, they should still be accounted for separately, with appropriate note disclosure of the amounts in the relevant entity's accounts. This is intended to achieve the following objectives:

- clear accountability for the way in which income is collected and associated processes managed;
- consistency across departments in the way that transactions are handled;
- alignment between Estimates, budgets and accounts, so that income (and any relevant expenditure) is treated consistently across all three frameworks.

The Exposure Draft proposes that these trust account proposals should be reflected in the FReM by revising and expanding the current chapter 13 on Revenue from taxes and duties.

A separate Exposure Draft on the 2011-12 changes will be issued shortly.

## **Summary**

Amendments to the 2010-11 FReM are proposed to:

- Remove cost of capital charges from accounts;
- Require impairments of property, plant and equipment to be scored to the OCS if they arise from a clear consumption of economic benefit, with a corresponding transfer from the revaluation reserve to the general fund;
- Require Trust Statements to be prepared and published for material amounts of revenue and associated expenditure collected as agent on behalf of the Consolidated Fund.

## **Questions**

### **Question 1**

Do you agree that HM Treasury's proposed FReM amendments with regard to cost of capital charges are effective in removing notional cost of capital charge requirements from accounts? If not, what further deletions or amendments would you propose?

### **Question 2**

Do you agree that HM Treasury's proposed FReM amendments with regard to impairments of assets will ensure that all impairments caused by a clear consumption of economic benefit will be scored to the OCS (rather than to any available revaluation reserves), but that the statement of financial position will, in effect, be restated to an IAS 36 consistent position by the suggested transfers from revaluation reserves to general fund? If not, why not, and what alternative would you propose?

### **Question 3**

Do you agree that the proposals for 'Trust Statements' will achieve their intended effect, in particular:

- the types of revenue to be included are appropriate and that they have been adequately defined / classified
- the materiality exemption proposed is appropriate and proportionate, and
- the presumption in favour of an accruals basis rather than a cash basis is correct.

### **Question 4**

Do you agree with the proposed effective date?

## **FReM chapters addressed**

The following table shows the topics addressed by these proposed amendments.

| <b>FReM Chapter</b>                  | <b>Subject of amendment</b>  |
|--------------------------------------|--|
| Ch 2: Accounting principles          | Remove reference to including cost of capital charges in budgets.  |
| Ch 3: Parliamentary Accountability   | Remove reference to impairments that score in DEL that do not pass through Operating cost Statements as being reconciling items in the <i>Reconciliation of outturn to net operating cost and against Administration Budget</i> .  |
| Ch 6: Tangible non-current assets    | Remove references to cost of capital charges; amend reference to cost of capital rate to be used in certain PFI accounting calculations; amend reference to impairment recognition regarding road surfaces, to refer to Chapter 8.   |
| Ch 8: Impairments                    | Adapt application of IAS 36, to require impairments that are caused by a clear consumption of economic benefit to be scored to the OCS, but maintaining consistency of statement of financial position figures with IAS 36 by requiring the transfer to the general fund of any available balance on the revaluation reserve to which the impairment would have been charged under IAS 36. |
| Ch 11: Income and expenditure        | Amend reference to cost of capital charges in connection with the student loans inflation adjustment; remove references to charging for the cost of capital from the section of the chapter dealing with notional expenditure.   |
| Ch 13: Revenue from taxes and duties | Revise and expand chapter to encompass taxes and duties receivable by any central government entity, and also fines and penalties, under a new chapter heading 'Accounting for Consolidated Fund Revenue'.   |
| Ch 14: Whole of Government Accounts  | Amend references to IAS 36 to note adaptation as discussed above re Chapter 8.   |

# Proposed amendments to Government Financial Reporting Manual

## Introduction

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Amendments to Chapters 2, 3, 6, 11, 13 and 14 are proposed.

## Why the amendments are proposed

The amendments are to

- Remove cost of capital charges from accounts;
- Require impairments of assets to be scored to the OCS if they arise from a clear consumption of economic benefit, with a corresponding transfer from any available relevant balance on the revaluation reserve to the general fund.
- Require Trust Statements to be prepared and published for material amounts of revenue and associated expenditure collected as agent on behalf of the Consolidated Fund.

## Proposed amendment

As a result of the proposals in this Exposure Draft there will be numerous changes to the FReM, mainly to amend reference to cost of capital charges and to adapt IAS 36 regarding impairments. In addition Chapter 13, *Revenue from taxes and duties* has been amended to encompass fines and penalties under a revised chapter heading *Accounting for Consolidated Fund Revenue*. The annexes detailed below show the impact on specific FReM chapters.

Annex A, FReM Chapter 2, Accounting principles  
Annex B, FReM Chapter 3, Parliamentary Accountability  
Annex C, FReM Chapter 6, Tangible non-current assets  
Annex D, FReM Chapter 8, Impairments  
Annex E, FReM Chapter 11, Income and Expenditure  
Annex F, FReM Chapter 13, Revenue from taxes and duties  
Annex G, FReM Chapter 14, Whole of Government Accounts

## Effective date of amendment

The effective date for the proposed amendment is 1<sup>st</sup> April 2010.

## Annex A

### FReM Chapter 2, Accounting principles

Paragraph 2.4.6 is amended (new text is underlined and deleted text is struck through).

2.4.6 The budgeting system applies to the public sector as a whole: central government, local government and public corporations. A department's budgets will normally include:

- the expenditure of the department, its agencies and its non-departmental public bodies on an accruals basis ~~and including cost of capital charges~~;
- certain income of these bodies that is within budgets, for example income from the sale of services;
- government grants to local authorities and supported capital expenditure (revenue);  
and
- support to public corporations by way of grants and loans.

## Annex B

### FReM Chapter 3, Parliamentary Accountability

Paragraph 3.2.6 is amended (new text is underlined and deleted text is struck through).

#### **Note 3: Reconciliation of outturn to net operating cost and against Administration Budget**

3.2.6 This note is in two parts:

- a) Note 3(a) reconciles the net resource outturn (the total of Note 2) to the net operating cost shown in the Operating Cost Statement by adjusting for prior period adjustments, non-Supply income (Consolidated Fund Extra Receipts) and Non-Supply expenditure (see 3.3.1) ~~and impairments that score in DEL that do not pass through Operating cost Statements~~. This replicates the first part of the *Reconciliation of resource expenditure between Estimates, Accounts and Budgets* in the Notes to the Main Estimates; and
- b) Note 3(b) shows outturn against the Administration Budget.

## Annex C

### FReM Chapter 6, Tangible non-current assets

Paragraphs 6.2.6, 6.2.21, 6.2.44 and 6.2.60(b) are amended (new text is underlined and deleted text is struck through).

#### ***Interpretations of IAS 16 for the public sector context***

6.2.6 In applying IAS 16, reporting entities should be aware of the following interpretations for the public sector context.

#### ***Recognition and measurement***

- a) All tangible fixed assets shall be carried at valuation at the reporting period – 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.
- b) It is not necessary to disclose the historical cost carrying amounts (where available) as required by IAS 16.
- ~~c) In considering the treatment of any interest at initial recognition, entities shall not capitalise any cost of capital charge associated with the item of property, plant or machinery.~~
- ~~c)~~ c) The 'value in use' of a non-cash-generating asset is 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.

#### ***Additional guidance in respect of the road network***

##### Land, Structures and Communications

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

##### Road Surface

6.2.11 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.

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

6.2.13 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.

6.2.14 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 show that deterioration in the road surface exceeds the service potential replaced by the maintenance programme the additional deterioration will be taken to the OCS 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.

6.2.15 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. Downward movements in value will be set against any credit balance held in the revaluation reserve until this credit is exhausted and thereafter to the Operating Cost Statement.

6.2.16 The road surface will be subject to an annual impairment review. Impairments will be recognised as required by IAS 36 Impairment of Assets.

## **Donated assets**

6.2.18 Assets donated by third parties (see also paragraph 6.2.23), either by gift of the asset or by way of funds to acquire assets (including national lottery-funded assets), and which meet the criterion in paragraph 6.2.19, should be capitalised at fair value on receipt. Where the value of the services provided by an asset will be less than the fair value of the asset because it is over-specified for its intended use, the lower value should be used. The amount capitalised should be credited to a donated asset reserve.

6.2.19 To qualify for treatment as a donated asset there should be no consideration given in return.

6.2.20 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.

6.2.21 Donated assets should be revalued, depreciated and subject to impairment review in the same way as other fixed assets. Revaluations should be taken to the donated asset reserve. Each year, an amount equal to the depreciation charge on the asset and any impairment should be released from the donated asset reserve to the operating cost statement. ~~No cost of capital charge will be imposed.~~

## ***Initial recognition and measurement of [PFI] assets and liabilities in new arrangements and contracts***

6.2.38 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 controls:

- a) or regulates what services the operator must provide with the infrastructure, to whom it must provide them and at what price; and
- b) 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.

6.2.39 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:

- a) it is probable that future economic benefits associated with the asset will flow to the organisation; and
- b) the cost of the asset can be measured reliably.

In practice, this means that the grantor will usually only recognise the asset when the asset comes into use. Where the grantor makes contributions to the operator in advance of the asset coming into use, the grantor should account for those payments as prepayments.

6.2.40 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 6.2.41), 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
- b) 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 6.2.42.

6.2.41 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;
- b) 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
- c) 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.

6.2.42 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).

6.2.43 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.

6.2.44 Entities covered by the requirements of this manual should use the ~~cost of capital rate given in chapter 11 (paragraph 11.5.4) Treasury discount rate for investment appraisal purposes (currently 3.5%) as their cost of capital rate~~. This rate is stated in real term and must be adjusted by adding 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: [http://www.hm-treasury.gov.uk/data\\_indic\\_index.htm](http://www.hm-treasury.gov.uk/data_indic_index.htm).

6.2.45 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 Operating Cost Statement.

### ***Interpretation of IAS 23 for the public sector context***

6.2.60 In applying IAS 23, reporting entities should be aware of the following interpretation for the public sector context.

#### ***Recognition***

a) Borrowing costs in respect of qualifying assets held at fair value shall be expensed;

~~b) The cost of capital charge is not a borrowing cost and does not fall within the scope of IAS 23.~~

## Annex D

### FReM Chapter 8, Impairments

Various paragraphs are amended (new text is underlined and deleted text is struck through).

## 8 Impairments

### Chapter 8 Contents

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### 8.1 Introduction

8.1.1 This chapter deals with accounting for impairments.

### 8.2 Accounting standards

8.2.1 The following accounting standard deals with accounting for impairments:

IAS 36 *Impairment of Assets*.

### IAS 36 Impairment of Assets

#### Applicability

8.2.2 IAS 36 applies in full, as adapted and as interpreted, to all reporting entities covered by this Manual.

#### Objective of IAS 36

8.2.3 The objective of IAS 36 Impairment of Assets is to ensure that assets are carried at no more than their recoverable amount. An asset is carried at more than its recoverable amount if its carrying amount exceeds the amount to be recovered through use or sale of the asset. If this is the case, the asset is described as impaired and the Standard requires the recognition of an impairment loss. In other words, an impairment reflects a permanent diminution in the value of an asset as a result of a clear consumption of economic benefits or service potential. Downward revaluations resulting from changes in market value do not necessarily result in an impairment.

## **Adaptation of IAS 36 for the public sector context**

8.2.4 The following adaptation of IAS 36 for the public sector context applies.

### Recognition

a) 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 loss of economic value or service potential should be taken to the revaluation reserve. Impairment losses that arise from a clear consumption of economic benefit should be taken to the operating cost statement. However, to ensure that the outcome as reflected in the reserves figure on the balance sheet is consistent with the requirements of IAS 36 had this adaptation not been applied, the balance on any revaluation reserve to which the impairment would have been charged under IAS 36 should be transferred to the general fund.

## **Interpretation of IAS 36 for the public sector context**

8.2.45 The following interpretations of IAS 36 for the public sector context apply.

### *Recognition and measurement*

- a) 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.

## **Other relevant factors**

8.2.56 In budgetary terms, certain impairments will score as DEL and others as AME, and departments will enter the type of impairment onto COINS 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. Impairment categories are defined below.

8.2.67 Capitalised development expenditure that is directly linked to a tangible fixed asset should be impaired only where the tangible fixed asset becomes impaired. Where the intangible asset relates to a group of tangible fixed 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.

### *Definitions: impairments that score as DEL*

8.2.78 The following types of impairment will score as DEL. ~~Where part of the DEL impairment is accounted for through the Operating Cost Statement and part through reserves, the notes to the accounts should disclose the total amount of the impairment.~~

### *Loss or Damage resulting from normal business operations*

8.2.89 All losses of, and damage to, tangible fixed assets that reduce the recoverable amount to below the book value other than those caused by a catastrophe (see below). Normal business operations covers all loss and damage to assets that result from management

and staff action (or inaction), and the actions of third parties. This category includes theft.

#### *Abandonment of assets in the course of construction*

8.2.910 The impairment of assets in the course of construction as a result of a management decision to abandon the construction process, i.e. management decides that it no longer requires the facility under construction and the construction costs to date are completely written off or substantially written off to reflect reduced utility. This category includes the abandonment of software assets in the course of construction.

#### *Over Specification of Assets (Gold Plating)*

8.2.4011 Gold plating is the unnecessary over-specification of assets at the point at which the asset is first constructed or purchased. This category should be used where the gold plating of assets leads to an impairment either because the asset is valued at its utility value to the business, or because the gold plating cannot be reflected in the recoverable amount.

8.2.4412 Care should be taken not to impair assets as being gold plated where they are of a high specification by necessity. For example, the high specification of embassies is in part a result of security and other factors relating to location and the needs of a representational building. The higher specification due to justified security and operational considerations should not lead to an impairment down to the value of ordinary office accommodation. The key is that the higher specification must be justifiable: if it is not an impairment should be taken.

#### *Definitions: impairments that score as AME*

8.2.4213 The following types of impairment will score as AME (with the agreement of the relevant authority (through sponsoring bodies where appropriate)).

#### *Loss as the result of a catastrophe*

8.2.4314 Damage to tangible fixed assets as a result of a catastrophe. The System of National Accounts (SNA93) which forms the basis of recording transactions in the National Accounts defines a catastrophe as: 'such events as will be generally easy to identify. They include major earthquakes, volcanic eruptions, tidal waves, exceptionally severe hurricanes, droughts and other natural disasters; acts of war, riots and other political events; and technological accidents such as major toxic spills or release of radioactive particles into the air'.

8.2.4415 Such events are very rare in global terms and exceptionally rare in the UK. Where a department believes an impairment should be scored as a Catastrophic Loss rather than 'Loss or Damage resulting from normal business operations' it should first contact the relevant authority.

8.2.4516 For the avoidance of doubt, the following are not catastrophes within the meaning of this definition: prison or street riots; loss or damage due, for example, to an ingress of water that could have been avoided by better maintenance or that resulted from relocation to a site where flooding was likely. These are all examples of losses resulting from management action or inaction.

#### *Unforeseen Obsolescence*

8.2.4617 All assets are subject to obsolescence. However, the rate of obsolescence tends to be category specific: e.g. IT assets suffer a faster rate of obsolescence than do buildings. Departments will take account of foreseeable obsolescence when

establishing asset lives. Unforeseen obsolescence will generally only occur either as the result of the introduction of a completely new technology or a change in legislation rendering use of the asset illegal. As such events are exceptionally rare, the relevant authority should be contacted prior to the use of this category.

### *Other Impairments*

8.2.4718 This category includes impairments that cannot be scored to another impairment category.

- Write Down to Depreciated Replacement Cost – This occurs where specialised building assets or enhancements (e.g. the construction of a new wing) to such assets are written down to depreciated replacement cost (DRC) following the first professional valuation.
- Write Downs of Development Land – This occurs where land is purchased for some form of social development. The cost of the land and any clean up cost can be greater than the disposal value resulting in an impairment.
- Changes in Use – This usually occurs where specialised assets no longer required for their original purpose are put to a non specialised use (e.g. a hardened aircraft hangar used as a store) or where an asset becomes permanently underused. However, impairment can result from the change of use of any asset including non-specialised assets.
- Disposals – Impairments can occur where assets are moved from ‘in use’ to ‘available for sale’.
- Uncompensated Seizures – The seizure of assets by governments or institutional units, other than for the settlement of fines or taxes, for which full compensation is not provided.
- Other impairments not detailed – Please contact the relevant authority for advice.

### **Revaluations**

8.2.4819 Downward revaluations result in an impairment only where an asset is revalued below its historical cost carrying amount. In these cases, the accounting treatment is as for any other impairment. All other downward movements (for example, as a result of market fluctuations) should be accounted for through the revaluation (or donated asset or government grant) reserve to the extent that there is a credit in that reserve that relates to the revalued asset or portfolio of assets.

## Annex E

### FReM Chapter 11, Income and Expenditure

Paragraph 11.3.6 is amended, a new paragraph 11.5.2 is inserted and paragraphs 11.5.3 – 11.5.15 are deleted (new text is underlined and deleted text is struck through).

#### **Student loans**

11.3.5 Student loans are subsidised. They carry, in effect, a rate of interest equivalent to the rate of inflation. In order to reflect the full extent of the subsidy, an inflation adjustment should be debited to the operating cost statement and credited to the general fund.

11.3.6 The calculation of the adjustment will be the rate of general inflation applied to the average net balance of loans outstanding and provision for the subsidy. The inflation index to be applied will be the retail price index (RPI(X)), using the index figure for September during the year of account. ~~The average balances should be the same as calculated for the cost of capital charge.~~ The ~~cost of capital charge~~ discounting and the inflation adjustment may be combined.

### **11.5 Notional expenditure**

#### **Introduction**

11.5.1 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 NDPBs, 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 NDPBs might reverse the entry below the result for the year or in the General Reserve.

11.5.2 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.

#### **Notional premiums**

11.5.23 Notional insurance premiums will not be charged in the operating cost statement. 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.

#### **~~Charging for the cost of capital~~**

~~11.5.3 All entities covered by the requirements of this Manual, with the exception of Trading Funds, charge a notional cost of capital. Trading Funds are required to earn and pay over an agreed rate of return to their sponsoring departments or directly to the relevant authority. The cost of capital charge will apply to all assets and liabilities in the statement of financial position, with liabilities attracting a negative charge (i.e. a credit). The cost of capital charges ensures an appropriate return on the taxpayers' equity. The calculation of the cost of capital is considered in paragraphs 11.5.12 to 11.5.15.~~

~~11.5.4 The charge will normally be at a real rate set by HM Treasury (currently 3.5 per cent) for all assets and liabilities. There are, however, exceptions which are detailed below.~~

~~***Investments comprising public dividend capital or other forms of equity investment, either with or without voted loans***~~

~~11.5.5 For investments represented by public dividend capital or other forms of equity investment, either with or without voted loans, the charge will be the higher of the Government's standard rate or the rate used for the purposes of calculating the body's target rate of return on capital employed as set out in the Treasury Minute applied to the underlying net assets of the body in question. The definition of the "underlying net assets" will be that used for the purposes of calculating the body's target rate of return on capital employed. For bodies that are not set a return on capital employed target, the charge will be the return as agreed between the department and the Treasury.~~

~~***Investments, other than trading funds, comprising public dividend capital or other forms of equity investment, either with or without loans from the National Loans Fund.***~~

~~11.5.6 For investments, other than Trading Funds, represented by public dividend capital or other forms of equity investment, either with or without loans from the National Loans Fund, the charge will be the higher of the Government's standard rate or the rate used for the purposes of calculating the body's target rate of return on capital employed applied to the underlying net assets of the body in question less any interest payable to the National Loans Fund. The definition of the "underlying net assets" will be that used for the purposes of calculating the body's target rate of return on capital employed. For bodies that are not set a return on capital employed target, the charge will simply be the return as agreed between the department and the Treasury less any interest payable to the National Loans Fund.~~

~~***Investments in trading funds comprising public dividend capital either with or without loans from the National Loans Fund***~~

~~11.5.7 For investments in Trading Funds represented by public dividend capital, either with or without loans from the National Loans Fund, the charge will be the higher of the Government's standard rate or the rate used for the purposes of calculating the trading fund's target rate of return on capital employed as set out in the Treasury Minute applied to the underlying net assets of the trading fund in question. The definition of the "underlying net assets" will be that used for the purposes of calculating the trading fund's target rate of return on capital employed. For trading funds which are not set a return on capital employed target, the charge will simply be the return as agreed between the department and the Treasury.~~

~~11.5.8 The National Loans Fund loan will be shown as a liability in the department's statement of financial position, and the interest payable on the loan(s) and repayments of principal will be paid directly to the National Loans Fund the department will account only for the amount of the cost of capital charge abated by the amount of the interest~~

payable by the trading fund to the National Loans Fund. In effect, the interest payable to the National Loans Fund is a proxy for all or part of the cost of capital charge, and the total of the cost of capital charge and the interest payable to the National Loans Fund will equate to the return required.

### ***Investments comprising only loans (either voted or from the National Loans Fund) with no public dividend capital or other form of equity investment***

11.5.9 For investments comprising only loans (either voted or from the National Loans Fund) with no public dividend capital or other form of equity investment, the charge will equate to the interest due from the body, calculated using the National Loans Fund rate of interest appropriate to a loan with the same date of issue and same repayment terms. Where there is more than one loan, the method of calculation will apply in respect of each loan separately. National Loans Fund loans, and voted loans which are made at National Loans Fund rates of interest, will therefore be at the correct rate of interest.

### ***Other Exceptions***

11.5.10 For donated assets, additions to heritage collections where the existing collection has not been capitalised, and cash balances with the Office of HM Paymaster General (OPG), the charge will be at a nil rate. Balances with the Bank of England will also bear a nil rate provided that the balances are formally included in the "Exchequer pyramid" which allows such monies to be used to reduce government borrowing.

11.5.11 For amounts due from, or due to be surrendered to, the Consolidated Fund, and liabilities in respect of advances outstanding from the Contingencies Fund, the charge will be at a nil rate.

### **Calculating the cost of capital**

11.5.12 The average value of an item over a period should be calculated using daily values, i.e. as the arithmetic mean of the values in each day of the period. However, for items which do not exhibit volatility on a daily basis it will normally be sufficient to use averages over longer intervals (e.g. weekly, monthly, quarterly or annually) as an approximation. Where an item which is normally stable changes by a significant amount within such an interval, the average value should be weighted to take into account the time over which the change occurred.

11.5.13 To facilitate in-year control of cost of capital charges the following alternative calculation may be used in respect of tangible fixed assets and intangible fixed assets where revalued, or where depreciation or amortisation charges are calculated using opening values. The cost of capital charge will be based on opening values, adjusted pro-rata for the following changes in-year:

- a) plus additional assets and subsequent capital expenditure on existing assets — at cost;
- b) less disposals — as value in opening statement of financial position (plus any subsequent capital expenditure prior to disposal);
- c) less impairments — the amount of the reduction being calculated from the value in the opening statement of financial position (plus any subsequent capital expenditure), or the acquisition cost of additional assets as appropriate;
- d) less depreciation or impairment charge.

~~11.5.14 Cost of capital charges for entities other than Trading Funds are notional and will not be transferred in cash. Departments should debit (credit if negative) the operating cost statement and credit (debit if negative) the general fund with the aggregate of the non-cash charges. NDPBs will reverse the cost of capital entry from the operating cost statement either on the face of the operating cost statement or through the General Fund where appropriate. NDPBs that are companies should reverse the cost of capital charge in arriving at the *Result of Ordinary Activities before Taxation*. Charities will need to reverse out the entry through the Statement of Financial Activities.~~

~~11.5.15 The standard rate applied to calculate the cost of capital charge should be disclosed in a note to the accounts. Where the rate for an item differs from the standard rate, the basis of calculation should be disclosed.~~

## Annex F

### FReM Chapter 13, Revenue from taxes and duties (to be renamed *Accounting for Consolidated Fund Revenue*)

Chapter 13, Revenue from taxes and duties, has been substantially revised and expanded to encompass taxes and duties receivable by any central government entity, and also fines and penalties, under the heading ‘Accounting for Consolidated Fund Revenue’. The relevant legislation is in the Exchequer and Audit Departments Act 1921, sections 2 and 3 of which require HMRC and every other receiver of money which is by law payable into the Exchequer 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. The revised chapter interprets the intention of the legislation as requiring those entities collecting revenue on behalf of the Consolidated Fund to prepare separate accounts (“Trust Accounts”), from those for the entity and to include in Trust Accounts details of the collection and allocation of that revenue.

As the chapter has been substantially rewritten it is presented, as rewritten, below. For reference purposes the current chapter is attached as appendix 1. Draft model statements for a Trust Account are included for illustrative purposes at appendix 2.

# Accounting for Consolidated Fund Revenue

## Chapter 13 Contents

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## **13.1 Introduction**

- 13.1.1 This chapter deals with revenue (and some associated expenditure) collected by entities on behalf of the Consolidated Fund. Although the Consolidated Fund is the source of most government funding and is the destination for unspent funds, this chapter does not cover the generality of those funding flows. It is more specifically about the collection of revenues 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. This chapter does not cover accounting by the Consolidated Fund for the revenues received.
- 13.1.2 The majority of the revenue sources covered by this chapter are either taxation or fines and penalties.

## **13.2 Definitions**

- 13.2.1 Taxes and duties: taxes and duties are economic benefits compulsorily paid or 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.
- 13.2.2 Fines and penalties: fines and penalties are economic benefits paid or payable to government for breaches of laws or regulations where there is a statutory obligation to pay.

## **13.3 Recognition and Measurement**

- 13.3.1 In applying the accounting policies set out in this chapter reporting entities shall have regard to the concepts set out in the *Framework for the Preparation and Presentation of Financial Statements*. In particular these entities shall have regard to the concept of prudence (paragraph 37 of the *Framework*) – the inclusion of a degree of caution in the exercise of the judgements needed in making the estimates required under conditions of uncertainty, such that gains and assets are not overstated and losses and liabilities are not understated.
- 13.3.2 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 amount 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 due from non-compliant, but known, taxpayers. A statement should be included in the accounting policies note that the “tax gap” is not recognised in the financial statements.

### **Taxes and duties**

- 13.3.3 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.
- 13.3.4 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, historic debt collection performance, a combination of the foregoing or by other appropriate means.

- 13.3.5 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.

## **Fines and penalties**

- 13.3.6 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.
- 13.3.7 Where fines and penalties are uncollectible or, for policy reasons, 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.

## **Tax expenses**

- 13.3.8 In the UK the main form of tax expense is tax credits. Tax credits are recorded as expenditure in the financial statements. To provide full information, that part of tax credits offset against recipients’ tax liabilities and that part paid as Payments of Entitlement are to be disclosed separately in the notes to the accounts.

## **13.4 Reporting**

- 13.4.1 HMRC and every other receiver of money which is by law payable into the Consolidated Fund is 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.
- 13.4.2 The intention of the underlying legislation<sup>1</sup> 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.
- 13.4.3 The Treasury (or, where appropriate, sponsor department) will issue an accounts direction to each entity producing a Trust Statement; the format 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.

## **Trust Statements**

- 13.4.4 Trust Statements shall include the following revenue:

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<sup>1</sup> As required by the Exchequer and Audit Departments Act 1921

- 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 to retain the penalties imposed.

13.4.5 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 those from whom taxes or penalties have been incorrectly collected;
- c) any provision for uncollectible amounts measured in accordance with IAS 39.

13.4.6 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 expense in the Trust Statement (and, equally, as revenue in the Operating Cost Statement).

## **Presentation**

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

13.4.8 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 Balance Sheet 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**

13.4.9 An entity shall disclose:

- a) in the notes to the trust statements, 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;
- b) in the notes to the trust statements, a statement of those taxes reported on an accruals basis and those on a cash basis; and

- c) any additional supporting information which might aid the understanding of users of the accounts. This may include, but will not be limited to, details of fraud, evasion and error and accounting estimates of accrued tax revenue.

The current FReM Chapter 13, Revenue from taxes and duties – proposed to be deleted

## ~~13 Revenue from taxes and duties~~

### ~~Chapter 13 Contents~~

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### ~~13.1 Introduction~~

~~13.1.1 This chapter applies to HM Revenue and Customs and to the Driver and Vehicle Licensing Agency. It sets out the principles for accounting for revenues from taxes and duties. This chapter does not apply to the Non-Domestic Rates Accounts, which continue to be prepared on a cash basis. Detailed information about the recognition points for, and the accounting treatment of, individual taxes are available on this Manual's dedicated web site.~~

### ~~13.2 Definitions~~

#### ~~Taxes and duties~~

~~13.2.1 Taxes and duties are economic benefits compulsorily paid or payable to public sector entities, in accordance with laws or regulations, established to provide revenue to the government, excluding fines or other penalties imposed for breaches of laws or regulations<sup>2</sup>.~~

### ~~13.3 Recognition and Measurement~~

~~13.3.1 In applying the taxation accounting policies set out in this chapter HM Revenue and Customs and the Driver and Vehicle Licensing Agency shall have regard to the concepts set out in the *Framework for the Preparation and Presentation of Financial Statements*. In particular, these tax authorities shall have regard to the concept of prudence (paragraph 37 of the *Framework*) – the inclusion of a degree of caution in the exercise of the judgements needed in making the estimates required under conditions of uncertainty, such that gains and assets are not overstated and losses and liabilities are not understated.~~

~~13.3.2 In preparing their financial statements, the tax authorities will not recognise or measure the 'tax gap'. The 'tax gap' is defined as the difference between the hypothetical amount 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 due from non-compliant, but known taxpayers. A statement should be made in the accounting policies note that the 'tax gap' is not recognised in the financial statements.~~

<sup>2</sup> Per IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)*

## ~~Taxes and Duties Recognised on an Accruals Basis~~

~~13.3.3 Where taxes and duties are recognised on an accruals 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.~~

~~13.3.4 Revenues are deemed to accrue evenly over the period for which they are due. No revenue is recognised if there are significant uncertainties regarding recovery of the taxes and duties 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, historic debt collection performance, a combination of the foregoing, or by other appropriate means.~~

## ~~Taxes and Duties Recognised on a Cash Basis~~

~~13.3.5 Where taxes and duties are recognised on a cash basis, they will be recognised in the accounting period in which the tax receipt is received and are measured at the cash amount received.~~

## ~~Tax Expenses~~

~~13.3.6 In the UK the main form of tax expenses are tax credits. Tax credits should be presented as expenditure in the financial statements. To enable alternative presentations in other publications, that part of tax credits scored against recipients' tax liabilities, and that part paid as Payments of Entitlements, can be analysed separately in the notes to the accounts.~~

## ~~13.4 Presentation~~

~~13.4.1 Entities shall prepare a set of financial statements containing details of the material components of tax income, expenditure, assets, liabilities or cash flows detailed in a Statement of Revenue and Expenditure, Statement of Financial Position and Statement of Cash Flows (together with supporting notes to those primary statements) to give a true and fair view of the state of affairs relating to the collection and allocation of taxes, duties and any other revenues and related expenditures.~~

## ~~13.5 Disclosures~~

~~13.5.1 An entity shall disclose:~~

- ~~a) in the notes to the financial statements, the main accounting policies, estimates and judgments used to assess tax income, expenditure, assets and liabilities, including any provision created in respect of tax deemed uncollectable;~~
- ~~b) in the notes to the financial statements, a statement of those taxes reported on an accruals basis and those on a cash basis; and~~
- ~~c) d) any additional supporting information to aid the understanding of users of the accounts. This may include, but will not be limited to, details on fraud, evasion and error, and accounting estimates of accrued tax revenue.~~

Model Trust Accounts

Department Purple

Trust Statement for the Year Ended 31<sup>st</sup> March 2011

**Contents:**

1. Principal Accounting Officer's Foreword to the Trust Statement
2. Statement of the Principal Accounting Officer's Responsibilities in Respect of the Trust Statement
3. Statement on Internal Control
4. The Certificate and Report of the Comptroller and Auditor General to the House of Commons
5. Statement of Revenue and Expenditure for the Year Ended 31<sup>st</sup> March 2011
6. Balance Sheet as at 31<sup>st</sup> March 2011
7. Notes to the Trust Statement
8. Accounts Direction given by HM Treasury

# **Principal Accounting Officer's Foreword to the Trust Statement**

## **Scope**

Department Purple is responsible for licensing morris dancers, those who organise their activities and those who provide equipment for use in morris dancing. The Department also takes enforcement action against unlicensed morris dancing. Until 31<sup>st</sup> March 2010 (when the tax was abolished) the Department was also responsible for the collection of the Stick and Ribbon Tax.

The Trust Statement reports the revenues and expenditure and assets and liabilities related to licensing morris dancing and to the enforcement of the regulations relating to morris dancing for the financial year 2010-11. These amounts are collected by Department Purple for payment into the Consolidated Fund.

The revenue and expenditure for which Department Purple has responsibility and which are accounted for in this Trust Statement are:

- Morris Dancing licence fees (net of refunds)
- Stick and Ribbon tax (discontinued after 31.3.2010)
- Fines and penalties for unlicensed morris dancing
- Fines and penalties for non-compliance with the licence terms
- Fines and penalties for morris dancing in a manner endangering public safety
- The costs of collecting licence fees

The costs of enforcing legislation relating to morris dancing are voted by Parliament in the Supply Estimate for Department Purple and are accounted for in Department Purple's resource accounts.

## Statement of the Principal Accounting Officer's Responsibilities in Respect of the Trust Statement

HM Treasury has appointed the Permanent Head of Department as Principal Accounting Officer of Department Purple with overall responsibility for preparing the Trust Statement and for transmitting it to the Comptroller and Auditor General.

The Principal Accounting Officer for Department Purple is responsible for ensuring that there is a high standard of financial management, including a sound system of internal control; that financial systems and procedures promote the efficient and economical conduct of business and safeguard financial propriety and regularity; that financial considerations are fully taken into account in decisions on policy proposals; and that risk is considered in relation to assessing value for money.

The Principal Accounting Officer is also responsible for the fair and efficient administration of the morris dancing licensing system, including the assessment, collection and proper allocation of revenue and the effective collection of fines and penalties imposed in relation to improper morris dancing.

Under section 2(3) of the Exchequer and Audit Departments Act 1921, the Principal Accounting Officer is responsible for the preparation and submission to the Comptroller and Auditor General of a Trust Statement for Department Purple for the financial year 2010-11. In conforming with the HM Treasury direction (see page 14 of this Trust Statement), the Trust Statement reports the revenue, fines and penalties collected and expenditure incurred in respect of morris dancing licensing and the enforcement of morris dancing legislation during the year, together with the net amounts surrendered to the Consolidated Fund.

The Trust Statement is prepared on an accruals basis. The Trust Statement must give a true and fair view of the state of affairs of Department Purple, including a Statement of Revenue and Expenditure, a Balance Sheet, and a Cash Flow Statement. The Trust Statement includes a Statement on Internal Control (SIC), which sets out the governance risk and control arrangements for Department Purple. The SIC process is firmly and clearly linked to the risk management process in Department Purple.

In preparing the Trust Statement, the Principal Accounting Officer is required to:

- observe 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 have been followed and disclose and explain any material departures in the account.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which an Accounting Officer is answerable, for keeping proper records and for safeguarding the Department's assets, are set out in the Accounting Officers' Memorandum issued by HM Treasury and published in *Managing Public Money*.

## Statement on Internal Control

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

## Statement of Revenue, Other Income and Expenditure for the Year Ended 31<sup>st</sup> March 2011

|  |      | 2010-11     | 2009-10     |
|--|------|-------------|-------------|
|  | Note | £000        | £000        |
| <b>Licence Fees and Taxes</b>  |      |             |             |
| Morris Dancing Licence Fees  | 2.1  | 2385        | 2132        |
| Stick & Ribbon Tax   | 2.1  | <u>0</u>    | <u>21</u>   |
| <b>Total Fees and Taxes</b>  |      | <u>2385</u> | <u>2153</u> |
| <b>Fines and Penalties</b>   |      |             |             |
| Fines and penalties for unlicensed morris dancing                            | 2.2  | 27          | 15          |
| Fines and penalties for non-compliance with licence terms                    | 2.2  | 16          | 18          |
| Fines and penalties for morris dancing in a manner endangering public safety | 2.2  | <u>6</u>    | <u>10</u>   |
|  |      | 49          | 43          |
| <b>Total Revenue</b>   |      | <u>2433</u> | <u>2196</u> |
| <b>Less: Expenditure</b>   |      |             |             |
| Licence fee collection costs   |      | 48          | 42          |
| Bad and doubtful debts   |      | <u>16</u>   | <u>14</u>   |
| <b>Total Expenditure</b>   |      | <u>64</u>   | <u>56</u>   |
| <b>Net Revenue for the Consolidated Fund</b>                                 |      | <u>2369</u> | <u>2140</u> |

There were no recognised gains or losses accounted for outside the above Statement of Revenue and Expenditure.

The notes at pages x to y form part of this statement.

## Balance Sheet as at 31<sup>st</sup> March 2011

|   | Note | 2010-11<br>£000 | 2009-10<br>£000 |
|---|------|-----------------|-----------------|
| <b>Debtors falling due after more than one year</b> |      | <u>0</u>        | <u>0</u>        |
| <b>Current Assets</b>                               |      |                 |                 |
| Debtors   | 3    | 120             | 108             |
| Accrued Fees and Taxes Receivable                   | 3    | 170             | 140             |
| Cash at Bank and in Hand                            |      | <u>12</u>       | <u>18</u>       |
|   |      | <u>302</u>      | <u>266</u>      |
| <b>Current Liabilities</b>                          |      |                 |                 |
| Creditors   | 4    | 14              | 12              |
| Accrued Revenue Liabilities                         | 4    | 25              | 28              |
| Deferred Revenue                                    | 4    | <u>88</u>       | <u>86</u>       |
|   |      | <u>127</u>      | <u>126</u>      |
| <b>Net Current Assets</b>                           |      | <u>175</u>      | <u>140</u>      |
| <b>Total Assets less Current Liabilities</b>        |      | 175             | 140             |
| <b>Provision for liabilities</b>                    | 7    | <u>12</u>       | <u>10</u>       |
| <b>Total Net Assets</b>                             |      | <u>163</u>      | <u>130</u>      |
| <b>Represented by:</b>                              |      |                 |                 |
| <b>Balance on Consolidated Fund Account</b>         | 8    | <u>163</u>      | <u>130</u>      |

The notes at pages x to y form part of this statement

**Charles Dickens**

**Principal Accounting Officer**

## Cash Flow Statement for the Year Ended 31<sup>st</sup> March 2011

|   |         | 2010-11 | 2009-10 |
|---|---------|---------|---------|
|   | Note    | £000    | £000    |
| Net cash flow from licensing and enforcement activities | A below | 2330    | 2141    |
| Cash paid to the Consolidated Fund                      | 8       | (2336)  | (2123)  |
| Increase/(Decrease) in cash in this period              |         | (6)     | 18      |

### Notes to the Cash Flow Statement

#### A: Reconciliation of Net Cash Flow to Movement in Net Funds

|   |             |             |
|---|-------------|-------------|
| Net Revenue for the Consolidated Fund   | 2369        | 2140        |
| Increase in Non-Cash Assets             | (42)        | (7)         |
| Increase in Liabilities                 | 1           | 5           |
| Increase in Provisions for Liabilities  | <u>2</u>    | <u>3</u>    |
| Net Cash Flow from operating activities | <u>2330</u> | <u>2141</u> |

#### B: Analysis of Changes in Net Funds

|   |           |           |
|---|-----------|-----------|
| Increase/(Decrease) in Cash in this Period            | (6)       | 18        |
| Net Funds at 1 <sup>st</sup> April (Net Cash at Bank) | <u>18</u> | <u>0</u>  |
| Net Funds at 31 <sup>st</sup> March (Closing Balance) | <u>12</u> | <u>18</u> |

# Notes to the Trust Statement

## Statement of Accounting Policies

### 1.1 Basis of Accounting

The Trust Statement is prepared in accordance with the accounts direction issued by HM Treasury under section 2(3) of the Exchequer and Audit Departments Act 1921. The Trust Statement is prepared in accordance with the accounting policies detailed below. These have been agreed between Department Purple and HM Treasury and have been developed with reference to International Financial Reporting Standards and other relevant guidance. The accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

The financial information contained in the statements and in the notes is rounded to the nearest £000

### 1.2 Accounting Convention

The Trust Statement has been prepared in accordance with the historical cost convention.

### 1.3 Revenue Recognition

Taxes, licence fees and penalties are measured at the fair value of amounts 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 Exchequer. A taxable event occurs when a liability arises to pay a tax or licence fee. Licence fees are deemed to accrue evenly over the period for which the licence is valid. Repayments are accounted for on a similar basis;
- A penalty is validly imposed and an obligation to pay arises.

### 1.4 Debtors

Debtors are shown net of a provision for doubtful debts.

### 1.5 Provisions

Provisions are recognised when Department Purple has a present legal or constructive obligation as a result of a past event, it is probable that Department Purple will be required to settle that obligation and an amount has been reliably estimated.

## 2. Revenue and Other Income

### 2.1 Morris Dancing Licence Fees

Morris dancing licence fees are net of repayments for surrendered licences.

## 2.2 Fines and Penalties

| £000         | Unlicensed morris dancing |         | Non-compliance with licence terms |         | Endangering public safety |         |
|--------------|---------------------------|---------|-----------------------------------|---------|---------------------------|---------|
|              | 2010-11                   | 2009-10 | 2010-11                           | 2009-10 | 2010-11                   | 2009-10 |
| Offences in: |                           |         |                                   |         |                           |         |
| 2008-09      | 3                         | 5       | 2                                 | 6       | 1                         | 4       |
| 2009-10      | 10                        | 10      | 4                                 | 12      | 3                         | 6       |
| 2010-11      | 14                        | 0       | 10                                | 0       | 3                         | 0       |
| Total        | 27                        | 15      | 16                                | 18      | 7                         | 10      |

## 3. Debtors

| £000                        | Debtors as at 31.3.11 | Accrued Revenue Receivable at 31.3.11 | Total as at 31.3.11 | Total as at 31.3.10 |
|-----------------------------|-----------------------|---------------------------------------|---------------------|---------------------|
| Morris dancing licence fees | 118                   | 170                                   | 288                 | 243                 |
| Stick & ribbon tax          | 0                     | 0                                     | 0                   | 3                   |
| Fines and penalties         | 10                    | 0                                     | 10                  | 8                   |
| Total before provision      | 128                   | 170                                   | 298                 | 254                 |
| Less provision) (see note 6 | (8)                   | 0                                     | (8)                 | (6)                 |
| Total                       | 120                   | 170                                   | 290                 | 248                 |

Debtors represents the amount due from licensees where invoices have been issued but not paid for at 31.3.11, and also the amounts due from those on whom financial penalties have been imposed prior to 31.3.11, but not paid at that date.

Accrued revenue receivable represents the amount of revenue from licences which relate to the financial year but for which invoices had not been issued. The amounts are estimated from statistical models of those activities which require a licence to be held.

#### 4. Creditors, Accrued Revenue Liabilities and Deferred Revenue

|                             | Creditors as<br>at 31.3.11 | Accrued<br>Revenue<br>Liabilities<br>at 31.3.11 | Deferred<br>Revenue<br>at 31. 3.11 | Total as<br>at<br>31.3.11 | Total as<br>at<br>31.3.10 |
|-----------------------------|----------------------------|---|------------------------------------|---------------------------|---------------------------|
| Morris dancing licence fees | 3                          | 23  | 88                                 | 114                       | 110                       |
| Fines and penalties         | 1                          | 2   | 0                                  | 3                         | 4                         |
| Sundry creditors            | 10                         | 0   | 0                                  | 10                        | 12                        |
| Total                       | 14                         | 25  | 88                                 | 127                       | 126                       |

Creditors are the amounts established as due at the balance sheet date, but where payment is made subsequently.

Accrued revenue liabilities are amounts repayable, either in relation to licences or to penalties where the amount has not been established at the balance sheet date. The amounts are estimated using statistical models.

Deferred revenue includes licence fees paid in the current year that relate to future financial periods.

#### 5. Bad and Doubtful Debts

| £000  | 2010-11  | 2009-10  |
|---|----------|----------|
| Bad debts                                   | 14       | 8        |
| Increase in provision for<br>Doubtful debts | <u>2</u> | <u>6</u> |
| Total                                       | 16       | 14       |

#### 6. Provision for Doubtful Debts

| £000                                     | 2010-11  | 2009-10  |
|--|----------|----------|
| Balance as at 1 April                    | 6        | 0        |
| Increase in provision for doubtful debts | <u>2</u> | <u>6</u> |
| Balance as at 31 March                   | 8        | 6        |

Debtors in the balance sheet are reported after the deduction of the provision for doubtful debts. This provision has been estimated using debt analysis and expert internal opinion.

## 7. Provisions for Liabilities

| £000                           | 2010-11    | 2009-10  |
|--------------------------------|------------|----------|
| Balance as at 1 April          | 10         | 0        |
| Provided in the year           | 4          | 10       |
| Provision utilised in the year | <u>(2)</u> | <u>0</u> |
| Balance as at 31 March         | 12         | 10       |

Provision has been made for legal claims brought by unsuccessful applicants for licences and by those whose licences were revoked. No information about these claims is disclosed as disclosure might prejudice the outcome of these claims.

## 8. Balance on the Consolidated Fund Account

| £000  | 2010-11       | 2009-10       |
|---|---------------|---------------|
| Balance on Consolidated Fund Account as at 1 April  | 130           | 113           |
| Net revenue for the Consolidated Fund               | 2369          | 2140          |
| Less amount paid to the Consolidated Fund           | <u>(2336)</u> | <u>(2123)</u> |
| Balance on Consolidated Fund Account as at 31 March | 163           | 130           |

## Accounts Direction Given by HM Treasury

ACCOUNTS DIRECTION GIVEN BY HM TREASURY IN ACCORDANCE WITH SECTION 2(3) OF THE EXCHEQUER AND AUDIT DEPARTMENTS ACT 1921 AND / OR SECTION 7(2) OF THE GOVERNMENT RESOURCES ACT 2000

1. Department Purple (“the Department”) shall prepare a Trust Statement (“the Statement”) for the financial year ended 31<sup>st</sup> March 2011 which shall give a true and fair view of (a) the state of affairs relating to the collection and allocation of taxes, licence fees, fines and penalties collected by the Department and of the expenses incurred in the collection of those taxes, licence fees, fines and penalties insofar as they can properly be met from the amounts collected and (b) of the cash flows for the year then ended.
2. When preparing the Statement, the Department shall have regard to the guidance given in the Appendix to this direction. The Department shall also agree (a) the format of the Principal Accounting Officer’s Foreword to the Statement and the supporting notes and (b) the accounting policies to be adopted, particularly in relation to revenue recognition. Regard shall also be given to all relevant accounting and disclosure requirements in *Managing Public Money* and other guidance issued by HM Treasury and to the principles underlying International Financial Reporting Standards.
3. The Statement shall be transmitted to the Comptroller and Auditor General for the purpose of his audit examination report by a date agreed with the Comptroller and Auditor General and HM Treasury to ensure compliance with the administrative deadline for laying the audited accounts before Parliament before the Summer Recess.

## FreM Chapter 14, Whole of Government Accounts

The table at paragraph 14.2.1 and paragraph 14.2.15 are amended to reflect the application of the adaptation to IAS 36 (new text is underlined and deleted text is struck through).

### **14.2 Accounting standards applied to Whole of Government Accounts**

14.2.1 This section summarises the applicability of accounting standards to WGA. Adaptations and interpretations of standards that apply to WGA are explained in the paragraphs below.

| Accounting Standard   | Adapted in other chapters | Interpreted in other chapters | Adapted for WGA | Interpreted in WGA |
|---|---------------------------|-------------------------------|-----------------|--------------------|
| IAS 1 Presentation of Financial Statements                                      | No                        | Yes                           | No              | Yes                |
| IAS 2 Inventories   | Yes                       | Yes                           | Yes             | Yes                |
| IAS 7 Statement of Cash Flows   | No                        | Yes                           | No              | Yes                |
| IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors           | No                        | No                            | No              | No                 |
| IAS 10 Events after the Reporting Period  | No                        | Yes                           | No              | No                 |
| IAS 11 Construction contracts   | No                        | No                            | No              | No                 |
| IAS 12 Income Taxes   | No                        | No                            | No              | No                 |
| IAS 16 Property, Plant and Equipment  | Yes                       | Yes                           | Yes             | Yes                |
| IAS 17 Leases   | No                        | No                            | No              | No                 |
| IAS 18 Revenue  | No                        | No                            | No              | No                 |
| IAS 19 Employee benefits  | Yes                       | Yes                           | No              | Yes                |
| IAS 20 Accounting for Government Grants and Disclosure of Government Assistance | No                        | Yes                           | No              | Yes                |
| IAS 21 The Effects of Changes in Foreign Exchange Rates                         | No                        | Yes                           | No              | Yes                |
| IAS 23 Borrowing costs  | No                        | Yes                           | No              | No                 |
| IAS 24 Related party disclosures  | No                        | Yes                           | Yes             | No                 |

|   |                          |     |                          |     |
|---|--------------------------|-----|--------------------------|-----|
| IAS 26 Accounting and Reporting by Retirement Benefit Plans         | Yes                      | Yes | N/A                      | N/A |
| IAS 27 Consolidated and Separate Financial Statements               | Yes                      | No  | Yes                      | Yes |
| IAS 28 Investments in Associates                                    | No                       | No  | No                       | No  |
| IAS 29 Financial Reporting in Hyperinflationary economies           | No                       | Yes | No                       | Yes |
| IAS 31 Interest in Joint ventures                                   | Yes                      | No  | No                       | No  |
| IAS 32 Financial Instruments  | No                       | Yes | No                       | No  |
| IAS 33 Earnings per share   | No                       | No  | No                       | No  |
| IAS 34 Interim Financial Reporting                                  | No                       | No  | No                       | No  |
| IAS 36 Impairment of Assets   | <del>No</del> <u>Yes</u> | Yes | <del>No</del> <u>Yes</u> | Yes |
| IAS 37 Provisions, Contingent Liabilities and Contingent Assets     | No                       | Yes | No                       | Yes |
| IAS 38 Intangible assets  | No                       | Yes | No                       | Yes |
| IAS 39 Financial Instruments; Recognition and Measurement           | No                       | Yes | No                       | Yes |
| IAS 40 Investment property  | No                       | Yes | No                       | Yes |
| IAS 41 Agriculture  | No                       | No  | No                       | No  |
| IFRS 1 First time adoption of IFRS                                  | No                       | Yes | N/A                      | N/A |
| IFRS 2 Share based payments   | No                       | No  | No                       | No  |
| IFRS 3 Business combinations  | No                       | No  | No                       | No  |
| IFRS 4 Insurance contracts  | No                       | No  | No                       | No  |
| IFRS 5 Non-current assets held for sale and discontinued operations | No                       | Yes | No                       | Yes |
| IFRS 6 Exploration for and Evaluation of mineral resource           | No                       | No  | No                       | No  |
| IFRS 7 Financial instruments: disclosure                            | No                       | Yes | No                       | No  |
| IFRS 8 Segment Reporting  | No                       | Yes | No                       | Yes |

## ***IAS 36 Impairment of assets***

14.2.15 IAS 36 is ~~interpretation~~ adapted and interpreted for WGA in the same way that it is adapted and interpreted for the financial statements of reporting entities covered by this manual.