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

(09) 05

EXPOSURE DRAFT OF PROPOSED

AMENDMENTS TO THE FReM

**ALIGNING BUDGETS, ESTIMATES AND
ACCOUNTS – PROPOSED FREM
AMENDMENTS FOR 2011-12 RE THE
STATEMENT OF PARLIAMENTARY
SUPPLY AND CHANGES TO THE
DEPARTMENTAL BOUNDARY**

Comments to be received by 21 September 2009



HM TREASURY

**ASSURANCE AND 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 21 **September 2009**. Respondents are asked to send their comments electronically to FReM.consultation@hm-treasury.gov.uk.

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



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Proposed amendments to the FReM

Introduction

Assurance and 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

The exposure draft includes at pages 4-6 and an explanation of why the amendments are proposed. Pages 8-10 provide a summary of the proposed amendments for each FReM chapter affected, with the detailed drafting changes set out in annexes A to E.

Invitation to comment

HM Treasury invites comments on the proposed amendments. It would particularly welcome answers to the questions set out at page 6. 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 21 September 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 2011-12 RE THE STATEMENT OF PARLIAMENTARY SUPPLY AND CHANGES TO THE DEPARTMENTAL BOUNDARY

<p>Why the amendments are 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.</p> <p>Since then the Government announced in its March 2009 Memorandum to Parliament (Cm 7567) that it proposes to phase implementation of the Alignment proposals, with full implementation of the major changes, such as the voting of budgetary control limits and the consolidation of NDPBs, to take place in 2011-12 accounts. These changes will be reflected in departmental resource accounts through changes in the Statement of Parliamentary Supply (to reflect the revised format of Estimates which will be based on budgetary control totals) and the extension of the consolidation boundary.</p> <p>Other proposed alignment changes discussed at the November 2008 FRAB meeting, affecting cost of capital charges and impairments, along with a proposal for the introduction of ‘Trust Accounts’ to be used to account for revenue (and some associated expenditure) collected by entities as agents on behalf of the Consolidated Fund, are the subject of an existing consultation in FReM ED (09) 03 dated 19 June 2009.</p>
<p>Paragraph(s) affected by the amendments</p>	<p>Ch 3 sections 1 & 2; Ch 4 paragraphs 4.2.3, 4.2.4, 4.2.12-14; Ch 5 paragraphs 5.2.11(b), 5.4.9, 5.4.13, 5.4.15, 5.4.40, 5.4.65; Ch 11 section 2; Annex 1</p>
<p>Proposed date</p>	<p>2011-12</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 include:

- 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 revised Statement of Parliamentary Supply and the extension of the departmental consolidation boundary – both already agreed in principle by the FRAB* – which are planned for implementation in 2011-12.

Summary

Amendments to the 2011-12 FReM are proposed to:

- Align the format of the Statement of Parliamentary Supply with the proposed aligned Estimates format based on Parliament's authorisation of departmental budgetary control totals;

* The Scottish Government FRAB nominee indicated that the proposal in respect of impairment of assets would be considered when the detailed paper on this and other proposals are brought to the Board in Autumn 2009.

- Revise the departmental resource accounting boundary to include non-departmental public bodies and other bodies classified to the central government sector by the Office for National Statistics.

Questions

Question 1

Do you agree that HM Treasury's proposed FrEM amendments in respect of the format of the Statement of Parliamentary Supply (and related notes) will maintain the Statement's position as the parliamentary accountability statement? If not, why not, and what additions or amendments would you propose?

Question 2

Do you agree that HM Treasury's proposed FReM amendments to reflect the extension of the resource accounting boundary will ensure that the appropriate bodies - i.e. those classified to central government by the Office for National Statistics - will be consolidated with suitable disclosures for the departmental group? If not, why not, and what additions or amendments would you propose?

Question 3

Do you agree with the proposed effective date?

FReM chapters addressed

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

FReM Chapter	Subject of amendment
Ch 3: Parliamentary Accountability	Align the format of the Statement of Parliamentary Supply for Westminster departments with the proposed aligned Estimates format based on Parliament's authorisation of departmental budgetary control totals.
Ch 4: Accounting boundaries	Revise the departmental resource accounting boundary to include non-departmental public bodies and other bodies classified to the central government sector by the Office for National Statistics.
Ch 5: Form and content of the annual report and accounts	Amend the formats of the Reconciliation of resource expenditure between Estimates, accounts and budgets and the Operating cost statement to reflect the increased alignment of Estimates, accounts and budgets and the inclusion of NDPBs within the departmental accounting boundary.
Ch 11: Income and expenditure	Reflect the proposed changes to the treatment of income in (Westminster) Estimates, whereby voted totals will be net of income and the concept of 'appropriations-in-aid' disappears.
Annex 1: Statement of Accounting Officer's responsibilities	Provide a model statement for departments consolidating non-departmental public bodies, confirming that the division of responsibilities between Departmental Accounting Officers and NDPB Accounting Officers will not change under alignment and to set out the responsibilities involved in the preparation of the consolidated accounts.

Proposed amendments to Government Financial Reporting Manual

Introduction

Amendments to Chapters 3, 4, 5 and 11 and Annex 1 are proposed.

Why the amendments are proposed

The amendments are to

- Align the format of the Statement of Parliamentary Supply with the proposed aligned Estimates format based on Parliament's authorisation of departmental budgetary control totals;
- Revise the departmental resource accounting boundary to include non-departmental public bodies and other bodies classified to the central government sector by the Office for National Statistics.

Proposed amendments

As a result of the proposals in this Exposure Draft there will be numerous changes to the FReM, mainly to change the formats of the Statement of Parliamentary Supply and the Operating Cost Statement to reflect a new Estimate format based on budgetary control totals and the inclusion of non-departmental public bodies in departmental resource accounts; and to revise the departmental resource accounting boundary to include NDPBs and other bodies classified to the central government sector. The annexes detailed below show the impact on specific FReM chapters.

Annex A, FReM Chapter 3, Parliamentary Accountability

Annex B, FReM Chapter 4, Accounting Boundaries

Annex C, FReM Chapter 5, Form and content of Annual Report and Accounts

Annex D, FReM Chapter 11, Income and Expenditure

Annex E, FReM Annex 1, Statement of Accounting Officer's responsibilities

Effective date of amendment

The effective date for the proposed amendment is 1 April 2011.

Annex A

FReM Chapter 3, Parliamentary Accountability

Chapter 3 is amended (new text is underlined and deleted text is struck through).

3 Parliamentary Accountability

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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. Relevant sections covering these bodies are included below.

3.1.2 The format of the accounts produced under the Public Finance and Accountability (Scotland) Act 2000 includes comparison of outturn against budget but does not include a separate *Statement of Parliamentary Supply* as set out in this chapter. However, the reconciliation of Parliamentary Supply (parliamentary funding) for a financial year follows the principles set out in this chapter and is disclosed in notes in the annual accounts.

3.1.3 ~~Information about the links between Parliament, the Supply process and departmental accounts and Supply Estimates is available in one of HM Treasury's Managing Resources booklets – *Managing the links to Parliamentary Supply*.~~ 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 *Government Accounting 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.

3.1.4 General information about the Fiscal Framework, the public spending framework and the Public Expenditure Statistical Analyses is available on HM Treasury's website. Specific guidance on budgeting and on the Consolidated On-line Information System (COINS) database is available on HM Treasury's gsi website.

~~3.1.5 Guidance on the accounting treatment of income payable to the Consolidated Fund (Consolidated Fund Extra Receipts or CFERs) is provided in chapter 11.~~ A worked example of accounting for Supply, including the treatment of balances to be surrendered at the end of the financial year and income payable to the Consolidated Fund, is available in the 'Practical Examples' section of this Manual's website **(to be updated)**.

3.1.6 For Scottish Bodies, relevant guidance is set out in the *Scottish Public Finance Manual*.

3.2 The Statement of Parliamentary Supply

Introduction

3.2.1 This section of the chapter explains the *Statement of Parliamentary Supply*. Supply is defined in the next section.

The Statement of Parliamentary Supply

3.2.2 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 resource outturn, a comparison of outturn against the Supply Estimate voted by Parliament in respect of each ~~Request for Resources budgetary control limit~~. The Summary will show ~~gross net~~ resource expenditure, ~~income 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 (eg Consolidated Fund standing services) Appropriated in Aid and net resource expenditure. It also includes a comparison of non-operating cost Appropriations in Aid with the amount voted by Parliament in the Supply Estimate.~~
- b) ~~a summary of the voted~~ net cash requirement, with a comparison of outturn against the Supply Estimate voted by Parliament; and
- c) a ~~reconciliation of the resource outturn to the net operating cost disclosed in the Operating Cost Statement summary of income not Appropriated in Aid and payable to the Consolidated Fund.~~

3.2.3 ~~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 Request for Resources 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.~~

3.2.34 Explanations of variances between the Estimates and outturn should be given in the Management Commentary. A brief explanation of any Excess Votes should be given on the

face of the Statement of Parliamentary Supply, with a detailed explanation given in the Operating and Financial Review.

The Notes to the Statement of Parliamentary Supply

3.2.45 The *Statement of Parliamentary Supply* is supported by Notes to the accounts. For Westminster departments the following information must be given in the supporting notes.

Note 2: Analysis of net resource and capital outturns by section

3.2.56 This note follows the format of Part II of the Estimate. The first part of the note analyses net resource outturn by section and between administration costs, other current expenditure, grants, programme costs and Appropriations in Aid income, comparing. The note compares the net total outturn for each section within each budgetary control limit Request for Resources 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 a brief explanation of the reasons for variances between the Estimate and outturn, with more detail being given in the Management Commentary.

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

3.2.67 This note is in two parts:

- a) Note 3(a) reconciles the net resource outturn (the total of from Note 2) to the net operating cost shown in the Operating Cost Statement. Reconciling items, other than capital grants to external bodies (treated as resource expenditure in the OCS but as capital in budgets) [and differences related to differing budget / accounts treatment of PFI] will be rare, but might include by adjusting for prior period adjustments relating to errors or accounting policy changes at the instigation of the department itself, and occasional non-budget income or expenditure, 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.

Note 4: Reconciliation of resources to cash requirement

3.2.78 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, with the detailed reasons being explained in the Management Commentary.

Note 5: Analysis of income payable to the Consolidated Fund

3.2.89 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 13). in two ways. First, operating income and receipts are disclosed as being excess appropriations in aid or as not classified as appropriations in aid. Secondly, non-operating income and receipts are disclosed as being excess appropriations in aid (with a further analysis in Note 7: Non-operating income – Excess Ain A), non-operating income and receipts not classified as appropriations in aid (with a

further analysis in note 8: Non operating income not classified as A in A). Other amounts collectable on behalf of the Consolidated Fund are also disclosed.

Note 6: Reconciliation of income recorded within the Operating Cost Statement to Operating Income payable to the Consolidated Fund

3.2.9 This note reconciles the income accounted for in the Operating Cost Statement to appropriations in aid recorded in the Statement of Parliamentary Supply by adjusting the income for excess appropriations in aid and operating income not classified as as appropriations in aid

Northern Ireland departments

3.2.10 The supporting notes for Northern Ireland departments are based on similar principles excepting that Note 2 is limited to resource expenditure / accruing resources (ie net resource outturn only excluding any analysis of capital expenditure), Notes 3 and 5 may include more non-Supply items and amounts payable to the Consolidated Fund relating to excess accruing resources, and a Note 6 may be required reconciling income recorded within the OCS to operating income payable to the Consolidated Fund.

Other notes relating to Parliamentary accountability

3.2.10¹ In addition to the requirements for notes supporting the *Statement of Parliamentary Supply*, departments covered by this chapter should also disclose in notes to the accounts (to follow the note on contingent liabilities):

- a) information about contingent liabilities not required to be disclosed under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* (see chapter 10) because the likelihood of a transfer of economic benefits is considered too remote, but included for parliamentary reporting and accountability purposes. For quantifiable remote contingent liabilities, the note should disclose the opening balance, any increase in the year, any amounts that crystallised in the year (that is, the liabilities have become reportable under IAS 37), any obligations that have expired during the year and the closing balance. The note should also state the amount that has been reported to Parliament by departmental Minute and provide a reconciliation between that and the disclosed amount where different. Reporting entities should list unquantifiable remote contingent liabilities, explaining why they are unquantifiable;
- b) a statement of losses, special and other payments;
- c) notation of gifts made over the limit prescribed in *Managing Public Money* or *Managing Public Money Northern Ireland equivalent*; and
- d) details of loans made over the limit prescribed in *Managing Public Money* or *Managing Public Money Northern Ireland equivalent*.

3.3 Supply

Definitions

3.3.1 Supply is the means by which parliamentary authority is secured for most government expenditure. This authority is required for all expenditure financed from the Consolidated Fund other than for expenditure covered by standing statutory authority (known as 'standing

services') such as the UK contributions to the European Union, servicing of government debt and certain salaries (for example, judges' salaries).

3.3.2 Supply is granted on an annual basis, voted in Estimates and in the Appropriation Acts (Budget Act in Northern Ireland). This Act authorises departments to draw down sums of money from the Consolidated Fund for the service of a specified year. The amount of cash issued from the Consolidated Fund and the amount of cash spent by a department in any year is likely to differ, giving rise to the 'Consolidated Fund Supply Balance' – which might be a balance due to or from the Consolidated Fund.

3.3.3 The Consolidated Fund Supply Balance is the difference between the Net Cash Requirement and the sum of Supply Drawn Down and Deemed Supply to the extent that the Net Cash Requirement outturn is within the limit set in the Supply Estimate.

3.3.4 'Supply Drawn Down' is the amount of Supply that a department receives from the Consolidated Fund in respect of the financial year. It does not include any Supply drawn down in respect of a prior financial year (see paragraph 3.2.6). Any Supply Drawn Down not spent is due to the Consolidated Fund at the end of the financial year. In practice, this creditor balance is usually offset against issues in the following year and not surrendered in cash.

3.3.5 'Deemed Supply' refers to the settlement of a prior year creditor to the Consolidated Fund for Supply. The creditor is settled when it is offset against Supply in the current year. (That is, there may be a difference between the cash received from the Consolidated Fund and the amount of Supply issued in any one year.)

3.3.6 Supply might also be drawn down to recompense a department where in the prior year it has spent amounts within its Net Cash Requirement for that year but not drawn down Supply to do so (that is, in settlement of a Consolidated Fund Supply debtor in the prior year – see paragraph 3.3.7(d)). Such Supply drawn down does not represent Supply for the current year and will not be taken into account in the Consolidated Fund Supply balance for the current year.

Accounting for Supply

3.3.7 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 (debit General Fund, credit Consolidated Fund Supply creditors). This accounting entry should be reversed in the following year where 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 (debit Consolidated Fund Supply debtor, credit General Fund). This accounting entry should be reversed in the following year when the cash is issued from the Consolidated Fund.

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.

3.3.8 Examples of the entries relating to accounting for Consolidated Fund transactions (both relating to Supply and to Extra Receipts) illustrate the requirements contained in the above paragraph. Those elements of the examples that are not reproduced in the accounts should be retained as part of the audit trail and should, where requested, be passed 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 Consolidated Fund Extra Receipts.

Annex B

FReM Chapter 4, Accounting boundaries

Chapter 4 is amended (new text is underlined and deleted text is struck through).

4 Accounting boundaries

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4.1 Introduction

4.1.1 This chapter sets out the accounting principles and standards that should be applied in determining the accounting boundaries of the reporting entities covered by this Manual.

4.2 Accounting standards

4.2.1 The following accounting standards deal with accounting boundaries:

IAS 27 *Consolidated and Separate Financial Statements*

IAS 28 *Investments in Associates*

IAS 31 *Interests in Joint Ventures*

SIC 12 *Consolidation – Special Purpose Entities*

SIC 13 *Jointly Controlled Entities – Non-monetary Contributions by Venturers*.

IFRS 3 *Business Combinations*

Applicability

4.2.2 Departments shall prepare annual reports and consolidated financial statements (as defined in Chapter 5 of this Manual) covering all entities within their consolidation boundary. Executive NDPBs and trading funds shall prepare consolidated financial statements in accordance with the requirements of IAS 27, IAS 28 and IAS 31 without adaptation and interpretation.

4.2.3 The departmental boundary is ~~similar to different from~~ the concept of a group under generally accepted accounting practice: ~~it~~, but is based on ~~in-year budgetary control and not control criteria used by the Office for National Statistics to determine the sector classification~~

~~of the relevant sponsored bodies. on strategic control. Reporting entities Executive non-departmental and similar public bodies~~ that satisfy the IAS 27, IAS 28, IAS 31 and SIC 12 criteria for consolidation as subsidiary undertakings, associated undertakings or joint ventures will be accounted for in accordance with IAS 27, IAS 28 and IAS 31 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.

- ~~a) the entity is inside the boundary (see paragraphs 4.2.12 to 4.2.14); and~~
- ~~b) the entity is regarded as an extension of the parent entity, meaning that the parent entity exercises in-year budgetary and spending control over the entity.~~

4.2.4 ~~If either of the above criteria are not met, then w~~where a department has a formal investment in another public sector entity that does not meet the criteria for consolidation, it should be reported at historical cost, less any impairment following the guidance in chapter 8 of this Manual. Investments in other entities should be accounted for following the requirements of IAS 39 (chapter 9). [This paragraph may be removed as a result of advice from the FRAB]

4.2.5 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.

4.2.6 SIC 13 applies to non-monetary contributions in joint ventures that fall within the accounting boundary.

Objective of IAS 27

4.2.7 The objective of IAS 27 is to require parent undertakings to provide financial information about the economic activities of their group in consolidated financial statements. These consolidated financial statements should present the financial information of the group as a single economic entity.

Objective of IAS 28

4.2.8 The objective of IAS 28 is to reflect the effect of investments in associates where the reporting entity is partly accountable for the associate's activities.

Objective of IAS 31

4.2.9 The objective of IAS 31 is to reflect the effect of a venturer's shares in joint ventures. The IAS also deals with joint arrangements relating to operations and assets that are not entities.

Objective of SIC 12

4.2.10 The objective of SIC 12 is to ensure that, regardless of the equity holding and control structure, where in substance the special purpose entity is controlled by the sponsor, it should be consolidated.

Objective of SIC 13

4.2.11 SIC 13 requires that, where venturers make non-monetary contributions in exchange for an equity share in a jointly controlled entity, the venturer recognises in profit and loss the element of any gain or loss that is attributable to the equity interests of the other venturers, except in specific circumstances.

The departmental accounting boundary

4.2.12 In addition to reportable activities, the following reporting entities are outside the departmental resource accounting boundary:

- a) any body classified as a public corporation by the Office for National Statistics (which includes most trading funds);
- ~~b) trading funds not classified as public corporations;~~
- ~~eb) any body classified to the local government sector by the Office for National Statistics;~~
- ~~c) Executive non-departmental public bodies (NDPBs) (including Advisory and Tribunal NDPBs) that produce their own financial statements, except where there are good grounds for consolidation as determined by the relevant authority;~~
- ~~d) Other public bodies where the department exercises only strategic control, except where there are good grounds for consolidation, as determined by the relevant authority; and~~
- e) c) any body classified to the private or rest of the world sectors by the Office for National Statistics.

4.2.13 The departmental resource accounting boundary will, therefore, include the following entities:

- a) Supply-financed agencies;
- b) non-agency parts of the department accounted for through the Supply process and other bodies whose expenditure is accounted for in separate financial statements, including non-executive NDPBs such as Advisory NDPBs and Tribunal NDPBs;
- c) exceptionally, executive NDPBs or other public bodies that produce their own financial statements where there are good grounds for consolidation as determined by the relevant authority; and which are classified by the Office for National Statistics to the central government sector; and
- d) Strategic Health Authorities and Primary Care Trusts in England, Local Health Boards in Wales, and Health Boards in both Scotland and Northern Ireland. Health bodies classified to central government by the Office for National Statistics.

~~4.2.14 The criteria set out above relating to the exceptional consolidation of executive NDPBs and other bodies that produce their own financial statements will apply to very few entities, and should be agreed with the relevant authority on a case by case basis. A minimum requirement for consolidation will be that the department has the power to exercise direct in-year budgetary control over expenditure, for example by amending previously agreed budgets for all or any part of the NDPB's expenditure and to require any further expenditure by the NDPB to comply with the amended budgets. Entities should refer to the relevant authority in cases where any of the requirements cannot be applied or there is uncertainty as to how they are to be applied.~~

IFRS 3 Business Combinations

Applicability

4.2.154 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 using merger accounting as detailed below.

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

Objective of IFRS 3

4.2.176 The objective of IFRS 3 is to specify that all business combinations (except those excluded from its scope) should be accounted for using the purchase method (also known as the acquisition method). IFRS 3 requires that all such combinations be accounted for at fair value at the date of the combination and that goodwill arising from such transactions is accounted for as an asset. Goodwill is not amortised but subject to impairment testing as required by IAS 36 *Impairment of Assets*.

Merger accounting

4.2.187 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.

4.2.198 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. The corresponding figures should be restated by including the results for all the combining bodies (or functions) for the previous period and their statement of financial position for the previous statement of financial position date, adjusted as necessary to achieve uniformity of accounting policies.

4.2.2019 For all such adjustments required to achieve uniformity of accounting policies, the double entry will be to the General Fund (or equivalent).

Disclosure

4.2.240 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.

4.2.221 A reporting entity that transfers functions to another reporting entity should provide the same information about the transfer in its financial statements.

Other requirements

4.2.232 Transfers of fixed assets that are not machinery of government changes¹ or part of a transfer of functions should be transferred at fair value following the fair value measures in IFRS 3.

¹ Machinery of Government changes are those changes that transfer responsibility for a function from one part of the public sector to another.

Annex C

FReM Chapter 5, Form and content of the annual report and accounts

Chapter 5 is amended in respect of

- the reconciliation of resource expenditure between Estimates, accounts and budgets in the business review (paragraph 5.2.11(b) refers);
- the operating cost statement format (paragraph 5.4.9);
- minor amendments at paragraphs 5.4.13, 5.4.15, 5.4.40 and 5.4.65 to reflect the inclusion of executive NDPBs within the departmental boundary

New text is underlined and deleted text is struck through.

A separate consultation has recently closed following the issue of Exposure Draft 2 on 5th April 2009 relating to IAS 1. Some of the content of that Exposure Draft affects Chapter 5 and the proposals below should be read in conjunction with the proposals in Exposure Draft 2.

Contents of directors' report: business review

5.2.8 The annual report shall contain a Management Commentary, which shall disclose the matters required to be disclosed in the business review under section 417 of the Companies Act 2006, taking into consideration the recommendations outlined in the ASB's Reporting Statement *Operating and Financial Review*, as interpreted below.

- a) "Members" (s.417(2)) shall be interpreted to be all users of the accounts.
- b) (S.417(3) and s.417(4)) The Management Commentary should be self-standing and comprehensive in its scope. However, some information might be given in other documents in the cycle of accountability to Parliament and the public such as the Autumn Performance Statement or Departmental Report. In such cases, the Management Commentary should provide summarised information with adequate cross-references to the other documents.
- c) (S.417(5)(a)) For departments, the Management Commentary should disclose, where applicable, the financing implications of significant changes in the department's objectives and activities, its investment strategy and its long-term liabilities (including significant provisions and PFI and other leasing contracts) in the light of the department's spending review settlement.
- d) Sections 417(5)(b)(i) and (iii) require information on environmental matters and social and community issues respectively.

5.2.9 The preparation of Sustainability Reports to complement the Annual Report and Accounts is encouraged and where such a Report is already produced, the Management Commentary should cross-refer to it. Further information on the kinds of information to be provided in the Management Commentary in respect of environmental and social and

community issues can be found in the Practical Examples and Pro-forma section of the FReM website (www.financial-reporting.gov.uk).

5.2.10 S417(6)) For departments, the Consolidated Statement of Operating Costs by Departmental Strategic Objectives and supporting notes will replace the requirement in the Reporting Statement to disclose performance against key performance indicators. Departments should report progress against Public Service Agreement targets. Other reporting entities should report progress against those targets agreed with the Minister and normally promulgated by means of a Parliamentary question. In disclosing information relating to the achievement of financial targets based on a return on capital employed, reporting entities should use the definitions of “return” and “capital employed” as agreed in their Treasury Minute or other document rather than those given in the Reporting Statement (IG example 1).

5.2.11 In addition to the matters described in section 417 of the Companies Act 2006, reporting entities to which this Manual applies shall disclose the following information:

- a) (departments to which paragraph 5.1.4 refers) a comparison of outturn against Estimate, with detailed explanations of the causes of significant variances where applicable;
- b) (departments preparing accounts under the Government Resources and Accounts Act 2000 or the Government Resources and Accounts Act (Northern Ireland) 2001) a reconciliation of resource expenditure between Estimates, Accounts and Budgets. The format, adapted from the reconciliation included in the Notes to the Main Estimate, is shown following this paragraph;
- c) (departments only) a description of the reporting entities within the departmental accounting boundary;
- d) (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);
- e) (departments only) a description of the departmental reporting cycle, including an outline of the matters covered in the spring Departmental report, in the Estimates, and in the Autumn Performance Report, and information about how readers can obtain these documents;
- f) (departments only) commentary on the department’s significant remote contingent liabilities (that is, those that are disclosed under Parliamentary reporting requirements and not under IAS 37) to enable the reader to understand their nature and what steps the department is taking to minimise the risk of their crystallising;
- g) (executive agencies that are not whole departments, trading funds and NDPBs only) a note that the accounts have been prepared under a direction issued by [relevant authority] under [reference to appropriate legislation];
- h) (executive agencies that are not whole departments, trading funds and NDPBs only) a brief history of the entity and its statutory (or equivalent) background;
- i) (primarily for NDPBs) an explanation of the adoption of the going concern basis where this might be called into doubt, for example where there are significant net liabilities that will be financed from resources voted by Parliament (grant-in-aid, for example) in the future;
- j) an indication of how pension liabilities are treated in the accounts and a reference to the statements of the relevant pension scheme. A cross-reference to the

accounting policy note in the accounts and the remuneration report will normally be sufficient;

- k) details of company directorships and other significant interests held by Board members which may conflict with their management responsibilities. Where a Register of Interests that is open to the public is maintained, disclosure may be limited to how access to the information in that Register may be obtained; and
- l) information regarding the disclosure of the remuneration paid to the auditors for any non-audit work undertaken by the auditors as required by Regulations made under Section 494 of the Companies Act 2006;
- m) publish sickness absence data;
- n) Public Sector Information Holders should also include a statement that [name of entity] has complied with the cost allocation and charging requirements set out in HM Treasury and Office of Public Sector Information guidance. In the case of Westminster departments and other entities, the Treasury Officer of Accounts team should be consulted where a reporting entity seeks an exemption from the FReM requirements on the grounds of commercial sensitivity; and
- o) reporting of personal data related incidents.

Reconciliation of resource expenditure between Estimates, Accounts and Budgets

	200X-0Y	£000 200W-0X
Net Total Resources Outturn (Estimates)		
<i>Adjustments to remove <u>non-budget elements</u>:</i>		
<u>Grants to devolved administrations (MoJ and NIO)</u>		
<u>Provision voted for earlier years</u> <u>Prior period adjustments</u>		
<i>Adjustments to <u>additionally include</u>:</i>		
<u>Non-voted expenditure in the OCS</u>		
Consolidated Fund Extra Receipts in the <u>OCS resource budget</u>		
Total Resource Budget Outturn		
<i>Not Operating Cost (Accounts) of which</i>		
<u>Departmental Expenditure Limits (DEL)</u>		
<u>Annually Managed Expenditure (AME)</u>		
<i>Adjustments to remove:</i>		
<u>Capital grants to local authorities</u>		
<u>Capital grants financed from the Capital Modernisation Fund</u>		
<u>European Union income and related adjustments</u>		
<u>Voted expenditure outside the budget</u>		
<i>Adjustments to <u>additionally include</u>:</i>		
<u>Capital grants (net of related EU contributions)</u>		
<u>Grants to devolved administrations (MoJ and NIO)</u>		
<u>Consolidated Fund Extra Receipts in the OCS</u>		
<u>Other Consolidated Fund Extra Receipts</u>		
<u>Resource consumption of non-departmental public bodies</u>		
<u>Unallocated resource provision</u>		
<i>Other adjustments</i> <u>Adjustments to remove</u>		
<u>Departmental Unallocated Provision (Resource)</u>		

Resource Budget Outturn (Budget) Net Operating Cost (Accounts)

Of which

Departmental Expenditure Limits (DEL)

Annually Managed Expenditure (AME)

Northern Ireland Departments may require additional items to complete this reconciliation and should include these as appropriate.

Operating cost statement

5.4.8 IAS 1 requires entities to prepare a statement of comprehensive income, however departments, NDPBs and Trading Funds should continue to follow the guidance in this manual.

Departments and executive agencies under the Government Resources and Accounts Act 2000 and the Government Resources and Accounts Act (Northern Ireland) 2001

5.4.9 Departments preparing resource 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 an operating cost statement in accordance with the format shown below. Where an agency wishes to follow an alternative format, the agency should seek the approval of the relevant authority through the parent department. Programme expenditure will be shown only where appropriate and any related income (if applicable) for both programme costs and administration costs should be shown separately for each of the two expenditure categories: see also chapter 11.3.3 and 11.3.4.

	Note	Core department			Current year			Prior year	
		Staff costs	Other costs	Income	Staff costs	Other costs	Income	Core department	Consolidated
		£000	£000	£000	£000	£000	£000	£000	£000
Administration costs:									
Staff costs		x			x			x	x
Other admin. costs			x			x		x	x
Operating income				(x)			(x)	(x)	(x)
Programme costs:									
Request for Resources 4									
Staff costs		x			x			x	x
Expenditure			x			x		x	x
Income				(x)			(x)	(x)	(x)
Totals		A	B	C	D	E	F		
Net operating cost				-Net total of A to C			Net total of D to F		

	Core Department		Current year £000				Core Department	Prior year £000		Core Department, Agencies and NDPBs
			Core Department and Agencies		Core Department, Agencies and Non-Departmental Public Bodies (NDPBs)			Core Department and Agencies		
	Staff costs	Other costs/ (Income)	Staff costs	Other costs/ (Income)	Staff costs	Other costs/ (Income)				
	Note									
Administration costs	X	X	X	X	X	X	X	X	X	
Programme costs - expenditure	X	X	X	X	X	X	X	X	X	
operating income	-	(X)	-	(X)	-	(X)	(X)	(X)	(X)	
Total costs	A	B	C	D	E	F				
Net operating cost		A+B		C+D		E+F	X	X	X	

Statement of Financial Position

5.4.12 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.

Interpretation of the statement of financial position requirements in IAS 1 for the public sector context

5.4.13 For the public sector, 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. To ensure consistency and comparability, reporting entities should prepare their statements of financial position in accordance with the format shown below, with additional line disclosure as necessary so as properly to reflect the entity's financial position, capital and reserves. Additionally, the statement of financial position for a departmental group shall include columns for the core department, the core department and agencies, and the consolidated group (usually core department, agencies and NDPBs). Where a reporting entity wishes to use an alternative format or to present on a liquidity basis, it should first obtain approval from the relevant authority (through the parent or sponsoring department as appropriate).

Notes	Current year £000	Prior year £000
Non-current assets		
Current assets		
Total assets		
Current Liabilities		
Non-current assets plus/less Net Current Assets/Liabilities		
Non-current Liabilities		
Assets Less Liabilities		
Taxpayers' Equity		

Statement of Changes in Equity

5.4.14 IAS 1 requires entities to prepare a Statement of Changes in Equity.

Interpretation of the Statement of Changes in Equity requirements in IAS 1 for the public sector

5.4.15 All reporting entities will present a Statement of Changes in Taxpayers' Equity in line with the structure illustrated in Department Yellow, NDPB Green or Agency Pink as appropriate. Reporting entities that are Vote funded should include Vote funding and Net Operating Cost in the Statement of Changes in Equity within the section of the statement showing transactions with equity holders. Additionally, the statement of changes in equity for a departmental group shall include columns for the core department, the core department and agencies, and the consolidated group (usually core department, agencies and NDPBs).

Analysis of net operating cost by spending body

5.4.40 Departments should disclose in a note to the financial statements an analysis of net operating costs by spending body against departmental budget as follows:

- a) the core department;
- b) entities within the departmental boundary, individually listed;
- c) NDPBs, individually listed
- d) other central government entities not covered by the above categories, individually listed;
- e) total grants to local authorities; and
- f) total grants to other bodies.

Other entities making grants or grants-in-aid should provide an analysis of amounts paid between public and private sector recipients.

Entities within the departmental boundary

5.4.65 Departments to which paragraph 5.1.4 applies should disclose in a note to the accounts a list of entities within the accounting boundary, analysed between Supply financed executive agencies, NDPBs (executive ~~(rarely)~~) and non-executive being listed under separate headings) and other entities.

FReM Chapter 11, Income and Expenditure

Section 2 of Chapter 11 is amended to reflect the proposed changes to the treatment of income in (Westminster) Estimates, whereby voted totals will be net of income and the concept of ‘appropriations-in-aid’ disappears (new text is underlined and deleted text is struck through).

11 Income and expenditure

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11.1 Introduction

11.1.1 This chapter sets out the accounting principles and standards that should be applied in preparing the entity's operating cost statement, income and expenditure account, or equivalent. It looks at each of the relevant accounting standards and, for Supply and Consolidated Fund Extra Receipts, there is a worked example of how the principles should be applied. Chapter 5 provides more detail on the disclosure requirements.

11.2 Income

Introduction

11.2.1 The following accounting standards deal with accounting for income:
IAS 18 *Revenue*; and
SIC 31 *Revenue – Barter Transactions Involving Advertising Services*.

IAS 18 Revenue and SIC 31 Revenue – Barter Transactions Involving Advertising Services

Applicability

11.2.2 IAS 18 and SIC 31 apply in full to all reporting entities covered by this Manual.

Objectives of IAS 18

11.2.3 The objective of IAS 18 is to identify the circumstances when revenue recognition criteria will be met. It also provides practical guidance on the application of those criteria.

SIC 31 consensus

11.2.4 The consensus in SIC 31 is that revenue from an exchange involving advertising services cannot be reliably measured by reference to the fair value of the services received. This is because reliable information is not available to the seller to support such measurement. However, a seller can reliably measure revenue at fair value of the advertising service it provides in a barter transaction by reference to its non-barter transactions that meet certain criteria specified in SIC 31.

Definitions

11.2.5 The following paragraphs provide definitions of the various types of income that departments covered by the requirements of this Manual 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;
- grants and grants-in aid to non-departmental public bodies (see paragraph 11.2.18);
- grants from the Ministry of Justice to the Welsh Assembly Government and the Scottish Government, and from the Northern Ireland Office to the Northern Ireland Assembly;
- amounts from the National Insurance Fund ~~in respect of welfare benefits~~;
- the Consolidated Fund in respect of standing services; and
- advances from the Contingencies Fund.

11.2.6 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 Assembly Government.

11.2.7 NDPBs and trading funds should refer to the following definitions as appropriate to their circumstances. There may be situations where, in consultation with their sponsoring bodies, non-departmental public bodies or trading funds 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. Non-departmental public bodies and trading funds should refer to paragraph 11.2.18 for guidance on accounting for grants and grants-in-aid.

Whole of United Kingdom, England and Northern Ireland Operating income ~~and operating appropriations-in-aid (referred to as 'accruing resources' in Northern Ireland)~~

11.2.8 Operating income is any income generated by an entity in pursuit of its activities (generally referred to as fees and charges) or as part of managing its affairs (examples include rents, interest and dividends receivable).

Accruing resources (Northern Ireland departments)

11.2.9 ~~Departments covering the whole of the United Kingdom, and departments covering England or~~ 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'). ~~Managing Public Money refers to operating income as operating appropriations-in-aid, and the Northern Ireland equivalent refers to accruing resources.~~ In most cases, income will be retained in support of expenditure on the same Request for Resources (RfR), but, subject to its taking out a Supplementary Estimate, a department may retain income against one RfR against related expenditure on another RfR if there is a direct link between the two. Transactions between a department's RfRs in the *Statement of Parliamentary Supply* will be eliminated in the operating cost statement. ~~National Insurance contributions receivable by the National Health Service are also accounted for as operating income.~~

Excess appropriations-in-aid

11.2.10 Income (either operating or non-operating) in excess of the level authorised to be appropriated-in-aid as accruing resources in respect of each RfR 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 RfR, it is possible for there to be excess income even though, in aggregate, income is within the voted limits set by Parliament. It is only possible to transfer excess income between RfRs by taking out a Supplementary Estimate.

Non-operating income and non-operating appropriations-in-aid

11.2.10 Proceeds arising from the sale of investments and fixed assets are accounted for as non-operating income. Northern Ireland departments should seek the approval of the relevant authority to appropriate in aid such income. Surpluses on the disposal of assets will be netted off expenditure in the operating cost statement only where they are no more than adjustments to depreciation (or amortisation) or impairment previously charged. The presumption is that this accounting treatment for profits will be more appropriate in respect of depreciable tangible fixed assets which are re-valued, and in respect of other surplus assets originally acquired for an entity's own use, and which have been written down to net realisable value. Other profits on disposal of assets will be treated as income in the operating cost statement. Profits on disposals are netted off the relevant expenditure section in the *Statement of Parliamentary Supply* ~~rather than appropriated-in-aid.~~

Other non-retainable income

11.2.11 Other non-retainable income includes any income or recovery of expenditure that cannot be classified as either appropriations-in-aid accruing resources or excess accruing resources (Northern Ireland departments) or that is non-budget (Westminster departments) (operating or non-operating) or excess appropriations-in-aid. It should be recorded in the operating cost statement. In England and Northern Ireland this income is treated as Consolidated Fund Extra Receipts. (See also 10.2.8 on confiscated, seized and forfeited property)

EU income

11.2.12 EU income from whatever source, other than receipts to be transferred to other member states or mandated bodies in other member states in respect of EU twinning projects, should be treated as income and shown separately on a gross basis in the

operating cost statement. A distinction should be made on the face of the operating cost statement between receipts where:

- a) the entity is acting as an agent for the European Union in making payments to third parties in the United Kingdom; and
- b) the receipts are treated as negative public expenditure and reduce the burden on the United Kingdom exchequer.

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.

11.2.13 EU income which is received by an entity in the capacity as an agent passing on the income to a third party may be netted off the relevant expenditure section in the *Statement of Parliamentary Supply*, rather than appropriated in aid. EU income received by an entity to fund its own expenditure should be or appropriated in aid

11.2.14 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.

Items authorised to be netted off gross expenditure

11.2.15 Items of income that departments are authorised to net off gross expenditure in the *Statement of Parliamentary Supply* for purposes of parliamentary control, which relate to any recovery of expenditure recorded in the operating cost statement or to returns on investments, should appear in the operating cost statement. Other entities will not normally be authorised to net off income against expenditure. With the exception of EU income (see above), no income is recorded in the operating cost statement where an entity is acting as an agent for a principal or on behalf of a third party.

Scotland

11.2.16 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.

11.2.17 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

11.2.18 Other than charitable NDPBs, who should follow the requirements of the Charities SORP, NDPBs should regard grants and grants-in-aid received for **revenue** purposes 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 received for **capital** purposes is described in chapter 6 (paragraph 6.2.57). Any proposal for alternative accounting treatment should be approved by the department responsible for the NDPB and the relevant authority.

Annex E

FReM Annex 1, Statement of Accounting Officer's responsibilities

An additional model Statement of Accounting Officer's responsibilities is proposed for Annex 1 of the FReM, to apply to departments consolidating non-departmental public bodies, in order to confirm that the division of responsibilities between Departmental Accounting Officers and NDPB Accounting Officers will not change under alignment and to set out the responsibilities involved in the preparation of the consolidated accounts.

ANNEX 1

Statement of Accounting Officer's responsibilities

Introduction

Annex 1.1 This Annex contains three model Statements of Accounting Officer's Responsibilities. The first is for an entity with a single Accounting Officer ~~and~~, 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] ¹. 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, resources applied to objectives] [income and expenditure] ¹, recognised gains and losses 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] ¹; 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 ~~[name of guidance]~~Managing Public Money published by ~~the~~
~~[relevant authority]~~HM Treasury.

¹ 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, resources applied to objectives, recognised gains and losses 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 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:

~~Request for Resources 1~~ Estimate section A: [name and title of Accounting Officer]
~~Request for Resources 2~~ 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 ~~[name of guidance]~~Managing Public Money published by ~~the~~
~~[relevant authority]~~HM Treasury.

Model Statement of Accounting Officer's responsibilities for a government department preparing consolidated resource accounts that include NDPBs [and other arms 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 arms 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, resources applied to objectives, recognized gains and losses 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 nondepartmental [and other arms 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 arms 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 arms length]* public body for which the Accounting Officer is responsible, are set out in *Managing Public Money* published by HM Treasury.