

8 January 2010

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

(10)01

EXPOSURE DRAFT OF PROPOSED

AMENDMENTS TO THE FReM

**Disclosure of Senior Staff Salary and Bonuses,
and of Civil Service and other compensation
schemes – exit packages**

Comments to be received by 5 February 2010



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 5 February 2010. 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

The 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 to ensure that the Manual reflects the latest developments in government financial reporting.

Structure of exposure draft

The exposure draft includes a section for each FReM chapter for which an amendment is proposed. Each section includes:

- (a) An explanation of why the amendment is proposed;
- (b) When necessary, any specific additional question unique to that proposed amendment;
- (c) The paragraphs of the FReM chapter that are affected by the proposed amendment;
- (d) The proposed effective date of each proposed amendment.

Invitation to comment

HM Treasury invites comments on the proposed amendments. It would particularly welcome answers to the questions set out below. 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 5 February 2010. 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.

Disclosure of Senior Staff Salary and Bonuses, and of Civil Service and other compensation schemes – exit packages	
Why the amendments are proposed	<p>As part of the commitment to increase transparency and accountability in Central Government financial reporting it is proposed to introduce the following disclosure requirements:</p> <ul style="list-style-type: none"> (a) The separate reporting of salaries and bonuses in the Remuneration Report; together with (b) The extension of disclosures in the Remuneration Report to include all grades at SCS 3 (and equivalent) and above; and (c) The reporting, by way of note to the accounts, of Civil Service exit packages awarded to all staff.
Paragraph(s) affected by the amendment	<p>Chapter 5 – paragraph 5.2.19 – new paragraph 5.4.66</p>
Proposed date	<p>2010-11, but, with early adoption encouraged from 2009-10.</p>

1. The purpose of this paper is to provide the background to and details of proposed changes to the FReM to introduce additional reporting requirements in relation to the separate disclosure of salaries and bonuses, an extension of the scope of the existing disclosure requirements in the Remuneration Report, and the reporting of Civil Service exit packages awarded to all staff.

Salary and Bonuses

Background

2. The Treasury Select Committee (TSC) had previously made a recommendation that the HM Treasury Group should separately disclose details of senior staff bonuses in its annual resource accounts and further indicated that such disclosure should be adopted across central government. In complying with the TSC's recommendation, the HM Treasury Group, in its 2007-08 and 2008-09 consolidated resource accounts, separately disclosed bonuses in £5k bands.

3. There is increasing public interest in the disclosure of public sector pay and bonuses, which has resulted in a number of parliamentary questions and Freedom of

Information requests seeking information on pay and bonuses awarded by central government reporting entities. To further increase transparency and accountability in financial reporting, it is proposed to increase the disclosure of salary and bonuses within the Remuneration Report.

Disclosure

4. In formulating the reporting proposal a number of issues were considered:

a. Presentation. The Remuneration Report is an interpretation of the Directors Remuneration Report Regulations 2002 and the Companies Act 2006. The current practice for central government bodies is to report combined salary and bonus figures in £5k bandings but, as communicated by the Cabinet Office to Permanent Secretaries in June 2009, two further presentation options have been under consideration:

- (1) **Option 1: Disclosure of the actual combined salary and bonus payable (see Annex A)** – This would require the reporting of an aggregate figure in the remuneration report and would be made up of an individual's total salary and allowances including performance pay and bonuses but disclosed as the actual amount payable (rather than within current £5k bands as at present). Although this option offers some small degree of additional disclosure it does not address the fundamental issue of the separate reporting of staff bonuses, and therefore does not meet the information needs of users in this respect.
- (2) **Option 2: The separate disclosure of salary and bonus figures in £5k bands (see Annex B)** – Disclosure via this method would maintain the current approach of reporting in £5k bands and would increase transparency with bonuses reported in a separate column. However, there are potential implications for how year-on-year changes might be interpreted and reported by users of accounts, e.g. if the bottom of the prior year band is compared to the top of the current year band.

HMT's preferred and proposed option is Option 2.

b. Prior Year v Current Year. Generally, accrued bonuses paid in year are based on prior year performance as bonuses are recognised once the appraisal process is complete and the award has been made, which usually takes place after the financial year-end and the accounts have been signed-off. As a result, the bonus disclosed is that awarded (and recognised) in the current year but based on prior year performance. This is in line with accounting practice as the bonus is recognised and accrued as it becomes payable. There is a view that the accounts should, instead, reflect bonuses based on the performance of the financial reporting year to which they relate. There are clearly practical difficulties in establishing bonus payments based on prior year performance in time for reporting in that year's accounts, and therefore this is not considered a feasible option.

c. Directors' remuneration. Section 421 of the Companies Act 2006 requires the preparation of a Remuneration Report containing information about the directors' remuneration. Paragraph 5.2.6 of the FReM defines the term 'directors' and interprets those who fit the definition within the public sector context. Paragraph 5.2.6 (d) goes on to define the composition of the management board as '*those having authority or responsibility for directing or controlling the major activities of the entity during the year. This means those who influence the decisions of the entity as a whole rather than the decisions of individual directorates or sections of the reporting entity*'. All Board members (including advisory and non-executive members) are required to disclose details of their remuneration, but the Treasury is aware that some entities include 'directors' who do not sit on the Board. At present, individual entities apply and interpret the FReM in a manner that is appropriate to their own circumstances and decide who fits this definition within their organisation. However, there is a counter view that a more consistent approach should be adopted across central government, and that disclosure should be extended in respect of grades above a certain level. In the interests of greater transparency and disclosure it is proposed that reporting in the Remuneration Report (including for information on pensions) be extended to include all SCS 3 grades (and their equivalent) and above.

5. It is proposed that the separate reporting of salaries and bonuses, together with the extension of disclosures within the Remuneration Report to include all grades at SCS 3 (and equivalent) and above, is applied from 2010-11, with voluntary adoption encouraged from 2009-10.

Civil Service and other compensation schemes - exit packages

6. In October 2009, the Permanent Secretaries' Employee Relations Group agreed HM Treasury and Cabinet Office proposals for the reporting of exit packages.

7. It was agreed that:

- a. Departments and their sponsored bodies (agencies, NDPBs, etc) each be consulted on the requirement to include within their resource accounts summary data about their own use of exit packages (in addition to the details of individual packages for those covered by remuneration reports); and that
- b. Sponsoring departments be required to submit their own and their sponsored bodies' summary data to the Cabinet Office for inclusion in a single report to be made available on-line. The Cabinet Office will aggregate and publish the information on their website where appropriate, and following discussion with individual departments and sponsored bodies.

8. The above reporting requirements cover the total costs of exits agreed in the year. They include payments under the Civil Service Compensation Scheme (CSCS), payments under any other compensation schemes where applicable (e.g. some NDPBs) and any other payments made (special severance payments).

9. It is proposed that the required summary information be reported in a note to the resource accounts from 2010-11, with voluntary publication encouraged from 2009-10. The information required and the proposed reporting format is at Annex C.

Summary of proposals

10. It is proposed that from 2010-11 (but with early adoption encouraged from 2009-10) that:

- a. The Remuneration Report includes separate disclosure of salary and bonuses payable in £5k bands;
- b. Disclosures in the Remuneration Report be extended to include all grades at SCS 3 (and equivalent) and above; and
- c. The use of exit packages is reported in a note to resource accounts.

General questions (applicable to all proposed amendments)

Question 1

Do you agree with HM Treasury's proposals to amend the FReM as described in the exposure draft? If not, why not, and what alternative do you propose?

Question 2

Do you agree with the proposed effective date? If not, why not, and what alternative do you propose?

FReM chapters addressed

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

FReM Chapter	Subject of amendment
Chapter 5 – Form and Content of Annual Report and Accounts	Paragraph 5.2.19 has been amended to reflect the requirement to report salaries and bonuses in the remuneration report as separate amounts in £5k bandings, and to extend disclosures in the Remuneration Report to include SC3 grades (and equivalent) and above.
	New paragraph 5.4.66 to require the reporting of summary information on exit packages agreed in year.

Proposed amendment to Government Financial Reporting Manual Chapter 5 - *Form and Content of Annual Report and Accounts*

Introduction

Amendments to Chapter 5 – *Form and Content of Annual Report and Accounts* are proposed.

Why the amendments are proposed

To increase transparency and accountability in remuneration reports, and to require disclosure of exit packages.

Proposed amendments

Paragraph 5.2.19 is amended (new text is underlined and deleted text is struck through).

5.2.19 The following interpretations apply:

- a) in most cases it will be sufficient to refer to the work and recommendations of the Senior Salaries Review Body in the statement of policy on the remuneration of directors for the current and future years;
- b) salaries should be in bands of £5000 for officials at SCS3 level (and equivalent) and above, and actual amounts for ministers. Salary and allowances covers both pensionable and non-pensionable amounts and includes, but may not necessarily be confined to: gross salaries; overtime; reserved rights to London Weighting or London allowances, recruitment and retention allowances; private-office allowances or other allowances to the extent that they are subject to UK taxation and any ex-gratia payments. It does not include amounts which are a reimbursement of expenses directly incurred in the performance of an individual's duties. Performance pay or bonuses payable should be separately reported from salaries, in bands of £5000. For **ministers**, only the salary payable in respect of their role as minister of the department should be shown.
- c) if a payment for compensation on early retirement or for loss of office (paid or receivable) has been made under the terms of an approved Compensation Scheme, the fact that such a payment has been made should be disclosed, including a description of the compensation payment and details of the total amounts paid;
- d) the estimated value of non-cash benefits (benefits in kind) should be disclosed to the nearest £100; and
- e) the information on pensions should be disclosed as follows:
 - the real increase during the reporting year in the pension and (if applicable) related lump sum at age 60 (ministers age 65) in bands of £2,500;
 - the value at the end of the reporting year of the accrued pension and (if applicable) related lump sum at age 60 (ministers, age 65) in bands of £5,000;

- the value of the cash equivalent transfer value at the beginning of the reporting year to the nearest £1,000;
- the real increase in the cash equivalent transfer value during the reporting year, to the nearest £1,000;
- the value of the cash equivalent transfer value at the end of the reporting year to the nearest £1,000; and
- in the case of a partnership pension account, the employer's contribution. (In these circumstances, the disclosures in the first four bullets will not apply.)

New paragraph 5.4.66 (new text is underlined and deleted text is struck through).

Disclosure of exit packages

5.4.66 Entities shall provide summary data on their use of exit packages agreed in year, and in the format proposed by the Cabinet Office.

Effective date of amendments

The effective date for the proposed amendment is 1 April 2010.

Option 1- Disclosure of combined salary and bonus as an actual amount

Officials	2009-10		2008-09	
	Salary £s	Benefits in kind (to nearest £100)	Salary £s	Benefits in kind (to nearest £100)
Member 1 Permanent Secretary	132,131	3,800	126,143	3,800
Member 2 Director General	109,234	500	104,831	400
Member 3 Director	95,076	-	92,542 6,010	-
Member 4 Director	78,762	-	75,609	-
Member 5 Director	79,375	-	76,923	-
Member 6 Director (until 28 February 2009)	68,234 (78,957 full year equivalent)	-	75,987	-
Member 7 Director* (From 1 March 2009)	6,732 (80,252 full year equivalent)	-	N/A	N/A

* Member 7 was appointed on a three-year contract commencing on 1 March 2010.

Salary

‘Salary’ includes gross salary; performance pay or bonuses; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances and any other allowance to the extent that it is subject to UK taxation. This report is based on payments made by the Department and thus recorded in these accounts.

Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the department and treated by HM Revenue and Customs as a taxable emolument. Member 1 and Member 2 had the private use of an allocated car in the circumstances permitted by the Civil Service Management Code.

Option 2 – Separate disclosure of salary and bonuses in £5k bands

Officials	2009-10			2008-09		
	Salary £'000	Bonus Payments £000s	Benefits in kind (to nearest £100)	Salary £'000	Bonus Payments £000s	Benefits in kind (to nearest £100)
Member 1 Permanent Secretary	125-130	0-5	3,900	115-120	5-10	3,800
Member 2 Director General	100-105	5-10	500	95-100	0-5	500
Member 3 Director	95-100	-	-	90-95	0-5	-
Member 4 Director	75-80	0-5	-	(75-80 full year equivalent)	-	-
Member 5 Director	75-80	0-5	-	75-80	0-5	-
Member 6 Director (until 28 February 2009)	65-70 (75-80 full year equivalent)	0-5	-	75-80	-	-
Member 7 Director* (From 1 March 2009)	5-10 (75-80 full year equivalent)	-	-	N/A	N/A	N/A

* Member 7 was appointed on a three-year contract commencing on 1 March 2010.

Salary

'Salary' includes gross salary; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances and any other allowance to the extent that it is subject to UK taxation. This report is based on payments made by the Department and thus recorded in these accounts.

Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the department and treated by HM Revenue and Customs as a taxable emolument.

Member 1 and Member 2 had the private use of an allocated car in the circumstances permitted by the Civil Service Management Code.

Bonuses

Bonuses are based on performance levels attained and are made as part of the appraisal process. They relate to performance in the previous year, therefore, bonuses paid in 2009-10 are based on 2008-09 performance and bonuses paid in 2008-09 are based on 2007-08 performance.

Reporting of Civil Service and other compensation schemes - exit packages
(Illustrative note for inclusion in resource accounts)

Examples in light font

Body (sponsor department)		XYZ Agency (Dept of ABC)			
	<i>a</i>	<i>b</i>	<i>c</i>	<i>d</i>	<i>e</i>
1	Exit package cost band (including any special payment element)	*Number of compulsory redundancies	*Number of other departures agreed	Total number of exit packages by cost band (total cost)	Number of departures included in (b) and (c) where special payments have been made (special payment element totalled)
2	<£20,001	1	4	5 (£95,000)	2 (£3,000)
3	£20,001 - £40,000	4	5	9 (£315,000)	1 (£14,000)
5	...	...	...	...	...
6	£100,001 - £150,000	...	...	...	...
7	£150,001 - £200,000	...	...	...	...
8	Total number of exit packages by type (total cost)	5 (£159,000)	9 (£251,000)		
9				Total number (and cost) of exit packages	Total number of special payments (and total cost of special payment element)
				14 (£410,000)	3 (£17,000)

* Under the CSCS or any other statutory scheme where applicable (e.g. for some NDPBs)