15 November 2011

GOVERNMENT FINANCIAL REPORTING MANUAL (FReM) EXPOSURE DRAFT No:

(11)06

EXPOSURE DRAFT OF PROPOSED

AMENDMENTS TO THE FReM

CLEAR LINE OF SIGHT REFORM: RATIONALISATION AND CLARIFICATION

Comments to be received by 23 November 2011

HM TREASURY

FINANCIAL MANAGEMENT AND REPORTING GROUP
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 **23 November 2011**. Respondents are asked to send their comments electronically to FReM.consultation@hmtreasury.gov.uk

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

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PROPOSED AMENDMENTS TO THE GOVERNMENT FINANCIAL REPORTING MANUAL (FReM)

Proposed amendments to the FReM

Introduction

The Financial Management and Reporting Group, 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 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 questions 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 **23 November 2011**. 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.

Apply to the FReM a rationalisation and clarification of reporting requirements in light of the Clear Line of Sight accounting reforms.	
Why the amendment is proposed	Following the CLOS Dry-run accounts review a number of changes are proposed.
Paragraphs affected by the amendment	Chapter 3, *Parliamentary Accountability* (3.27-8) Chapter 5, *Form and Content of Annual Report and Accounts* (5.4.9, 5.4.40, 5.4.45, 5.4.48, 5.4.62) Chapter 11, *Income and Expenditure* (11.3.3-4) Chapter 13, *Accounting for Consolidated Fund Revenue* (13.1.2, 13.3.8-8, 13.4.4-6)
Proposed date	1 April 2011 onwards

Background

The FReM has been reviewed as part of a review of the 2010-11 resource accounts and 2010-11 Clear Line of Sight (CLOS) dry-run annual accounts processes' in England. The context for this review was to examine the reporting requirements in the FReM in light of the CLOS reforms that will take effect from 2011-12 in England and consider the usefulness and understanding of the guidance.

The proposals set out below will not apply to Devolved bodies where the FReM and complimentary guidance issued by the relevant authorities sets out a different treatment.

Summary

The proposals set out below have been separated into two categorises;

1. Rationalisation of FReM reporting requirements – assessing existing disclosure requirements against the context of the CLOS changes to determine whether they continue to meet EU-adopted IFRS as interpreted and adapted for the public sector context, and additional reporting expectations of Parliament.

2. Clarification of FReM reporting requirements – There is potential for misinterpretation of CLOS principles in the existing 2011-12 FReM. This ED seeks to clarify the guidance.

Proposals – Rationalisation of FReM reporting requirements

1. Revision of parliamentary accountability note 4, from "a reconciliation of resources to cash requirement" to disclosing "a reconciliation between the Net Cash Requirement and the increase (or decrease) in the cash of the Departmental Group" (FReM 3.2.8).

The FReM requires the note to reconcile the net resource outturn reported in the Statement of Parliamentary Supply to the net cash requirement. This note is intended to provide actual figures to mirror the resource to cash reconciliation in part II of the Supply Estimate. However, this duplicates much of the information included in the Statement of Cash flows, and so a reconciliation between the parliamentary cash control and the cash movement presented in the Statement of Cash Flows is considered a more useful disclosure for understanding parliamentary controls and the differences between this and the requirements of IAS 7, *Statement of Cash Flows,* as applied by the FReM.

2. Removal of the disclosure note “Analysis of net operating cost by spending body” (FReM 5.4.40). This note provides information that is largely captured elsewhere in the accounts as a result of Clear Line of Sight changes:
    a. The extension of the departmental group reporting boundary means NDPB expenditure is now reported as part of the departmental group;
    b. Changes made to disclosure note 2, analysing net resource and net capital outturn by section, will provide disclosure of estimates and outturn by subheads, which break outturn down by function, identifying material NDPB’s and other ALB’s separately.

3. Removal of the FReM requirement for entities to analyse intra-government current assets and current liabilities (FReM 5.4.45 & 5.4.48). This disclosure requirement was developed to improve the quality of counter-party transactions. This has largely been superseded by; the Clear Line of Sight consolidation of ALB’s, as many previously reported transactions within the departmental group will now be eliminated; and the production of Whole of Government Accounts (WGA). The identification of intra-government balances remains a key priority in producing the WGA.

4. Clarification that the level of disclosure of third-party assets should be proportionate to the significance of the balances held (5.4.62).

The proposed FReM changes are attached at Annex A.

Proposals – Clarification of FReM reporting requirements

1. Accounting for Consolidated Fund (CF) Revenue – this chapter was materially rewritten for the 2010-11 FReM, requiring relevant departments and their ALBs to produce trust statements, most for the first time, to separately record the revenue collected (and some associated expenses) on behalf of the CF. Subsequently, some departments and the NAO proposed minor changes or highlighted areas that required clarification or further guidance. These issues have been considered and the proposed changes are aimed at improving the clarity of the drafting rather than the substance, and therefore considered minor or explanatory. A detailed explanation of the proposed changes is provided at Annex C.

2. Programme and Administration budget definitions – The proposed changes are to clarify that the budget definitions of Programme and Administration

expenditure should be applied throughout annual accounts. FReM references to specific exclusions from Administration budget control also need updating to ensure consistency with the Treasury's Consolidated Budgeting Guidance (CBG).

3. The 2010 Spending Review extended Administration budget control to NDPB's. The proposed FReM changes reflect the spending control change.

The proposed FReM changes are attached at Annex B.

General questions

Question 1

Do you agree with the proposals to rationalise accounting disclosure requirements? If not, which proposals do you not agree with, why, and what alternative do you propose?

Question 2

Do you agree with the proposals to clarify accounting disclosure requirements? If not, which proposals do you not agree with, why, and what alternative do you propose?

FReM chapters addressed

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

FReM Chapter	Subject of amendments
Chapter 3, *Parliamentary Accountability*	Rationalisation and clarification of reporting requirements in light of the Clear Line of Sight accounting reforms
Chapter 5, *Form and Content of Annual Report and Accounts*	
Chapter 11, *Income and Expenditure*	
Chapter 13, *Accounting for Consolidated Fund Revenue*	

ANNEX A

Proposed amendment to Government Financial Reporting Manual - Rationalisation of FReM reporting requirements to Chapter 3, *Parliamentary Accountability* and Chapter 5, *Form and Content of Annual Report and Accounts*

Introduction

Amendments to Chapter 3, *Parliamentary Accountability* and Chapter 5 *Form and Content of Annual Report and Accounts* are proposed.

Why the amendments are proposed

The amendments proposed in this Exposure Draft seek to amend the FReM to rationalise reporting requirements in light of Clear Line of Sight reforms.

Proposed amendments

3 Parliamentary Accountability

3.2 The Statement of Parliamentary Supply

The Notes to the Statement of Parliamentary Supply

3.2.5 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 outturn by section

3.2.6 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, programme costs and Income, comparing the net total outturn for each section within each budgetary control limit with the Estimate. The second part analyses net capital outturn by section and between gross expenditure and income, comparing the net total outturn for each section within each budgetary control limit with the Estimate.The note should give 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 outturn to net operating cost and against Administration Budget

3.2.7 This note is in two parts:

a) Note 3.1 reconciles the net resource outturn (from Note 2) to the net operating cost shown in the Statement of Comprehensive Net Expenditure. Reconciling items, other than capital grants to external bodies (treated as resource expenditure in the Statement of Comprehensive Net Expenditure but as capital in budgets) [and differences related to differing budget / accounts treatment of PFI] will be rare, but might include prior period adjustments relating to errors or accounting policy changes at the instigation of the department itself, and occasional non-budget income or expenditure.

b) Note 3.2 shows outturn against the Administration Budget.

Note 4: Reconciliation of Net Cash Requirement to increase/(decrease) in cash

3.2.8 This note reconciles the net cash requirement to the increase/(decrease) in cash held by the Departmental Group. Note 5: Analysis of income payable to the Consolidated Fund

3.2.9 This note analyses income payable to the Consolidated Fund and will only be required if non-budget income has arisen during the year. Amounts collected by the department as agent of the Consolidated Fund should not be included, but should be accounted for in a separate Trust Statement if material (see Chapter 13).

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 Statement of Comprehensive Net Expenditure to operating income payable to the Consolidated Fund.

5 Form and content of the annual report and accounts

The Annual Accounts

IAS 1 Presentation of Financial Statements (excluding paragraphs 15 to 46)

5.4.5 This section deals with the requirements of IAS 1, excluding paragraphs 15 to 46, which are covered in chapter 2.

Applicability

5.4.6 IAS 1 applies as interpreted to all reporting entities covered by the requirements of this Manual.

Objective of IAS 1 (excluding paragraphs 15 to 46)

5.4.7 The objective of IAS 1 is to prescribe the basis for presentation of general purpose financial statements to ensure comparability with the entity's financial statements of previous periods and with the financial statements of other entities.

Statement of Comprehensive Net Expenditure

5.4.8 IAS 1 requires entities to prepare a statement of comprehensive income, 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 annual accounts and executive agencies preparing financial statements under the Government Resources and Accounts Act 2000 or under the Government Resources and Accounts Act (Northern Ireland) 2001 shall prepare a Statement of Comprehensive Net Expenditure in accordance with the format shown below. Where a department or agency wishes to follow an alternative format, they should seek the approval of the relevant authority, with agencies seeking approval through the sponsoring 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.)

Consolidated Statement of Comprehensive Net Expenditure

for the Year to 31 March 200Y

£000	200X-Y			200W-X		
	Core Dept	Core Dept. & Agencies	Departmental Group	Core Dept	Core Dept. & Agencies	Departmental Group
	Total	Total	Total	Total	Total	Total
Administration costs						
Staff	X	X	X	X	X	X
Other	X	X	X	X	X	X
Programme expenditure						
Staff	X	X	X	X	X	X
Other	X	X	X	X	X	X
Operating Income	(X)	(X)	(X)	(X)	(X)	(X)
Other expenditure						
Staff	X	X	X	X	X	X
Other	X	X	X	X	X	X
Net Operating Costs for the year ended 31 March 200Y	X	X	X	X	X	X
Net gain/(loss) on:						
- revaluation of property, plant & equipment	X	X	X	X	X	X
- revaluation of intangibles	X	X	X	X	X	X

- revaluation of available for sale financial assets	X	X	X	X	X	X
Total comprehensive expenditure for the year ended 31 March 200Y	X	X	X	X	X	X

Non-departmental public bodies and trading funds

5.4.10 NDPBs shall prepare a Statement of Comprehensive Net Expenditure as appropriate. Trading funds shall prepare a Statement of Comprehensive Income. Charitable NDPBs should follow the requirements of the Charities SORP. In applying IAS 1, where this Manual refers to the Statement of Comprehensive Net Expenditure or Statement of Comprehensive Income, NDPBs and Trading Funds should interpret this terminology as appropriate for their own circumstances.

Notes to the accounts

Other current assets

5.4.44 Entities shall analyse other current assets by type (as appropriate) as set out below:

a) deposits and advances;

b) other debtors;

c) prepayments and accrued income;

d) current part of PFI prepayment;

e) current part of NLF loan; and

f) amounts due from the Consolidated Fund in respect of Supply.

Cash and cash equivalents

5.4.46 Entities shall disclose the opening position, the net change in balances and the closing position separately for cash and cash equivalents. Where applicable, the closing position should be further analysed between balances held with the Government Banking Service (GBS)[1] and balances held in commercial banks, again distinguishing between cash and cash equivalents.

Other creditors

5.4.47 Reporting entities shall analyse other creditors by type (as appropriate) as set out below. For amounts falling due within one year:

a) overdraft;

b) VAT;

c) other taxation and social security;

d) accruals and deferred income;

e) current part of finance leases;

f) current part of imputed finance lease element of on-balance sheet PFI contracts;

[1] Where GBS is using Citi and Royal Bank of Scotland Group to provide the banking services, funds held in these accounts should not be classed as commercial bank balances.

g) current part of NLF and voted loans;

h) amounts issued from the Consolidated Fund for Supply, but not spent at the year end;

i) Consolidated Fund extra receipts due to be paid to the Consolidated Fund – received;

j) Consolidated Fund extra receipts due to be paid to the Consolidated Fund – receivable;

k) other headings as appropriate; and,

for amounts disclosed as non-current liabilities:

l) finance leases;

m) imputed finance lease element of on-balance sheet PFI contracts;

n) NLF loans; and

o) other headings as appropriate.

Third party assets

5.4.61 Third party assets are assets for which an entity acts as custodian or trustee but in which neither the entity nor government more generally has a direct beneficial interest. Third party assets are not public assets, and should not be recorded in the primary financial statements. Nor should third-party monies be held in public bank accounts.

5.4.62 In the interests of general disclosure and transparency, any third party assets should be reported by way of note. Where significant, the note should differentiate between:

a) third party monies and listed securities: the minimum level of numerical disclosure required is a statement of closing balances at financial year-end. For listed securities, this will be the total market value. Optionally, when considered significant by the entity and at its discretion, further disclosures may be made, including gross inflows and outflows in the year and the number and types of securities held;

b) third party physical assets and unlisted securities: disclosure may be by way of narrative note. For physical assets, the note should provide information on the asset categories involved. Such disclosure should be sufficient to give users of the financial statements an understanding of the extent to which third-party physical assets and unlisted securities are held by the entity; and

c) in the event that third party monies are found to have been in a public bank account at the end of an accounting year, commentary should be included in the note on cash at bank and in hand and in the disclosures above on the amount of third party monies held in the bank account.

ANNEX B

Proposed amendment to Government Financial Reporting Manual - Clarification of FReM reporting requirements to Chapter 3, *Parliamentary Accountability*, Chapter 11, *Income and Expenditure*, and Chapter 13, *Accounting for Consolidated Fund Revenue.*

Introduction

Amendments to Chapter 3, *Parliamentary* Accountability, Chapter 11, *Income and Expenditure* and Chapter 13, *Accounting for Consolidated Fund Revenue* are proposed.

Why the amendments are proposed

The amendments proposed in this Exposure Draft seek to amend the FReM to clarify reporting requirements in light of Clear Line of Sight reforms.

Proposed amendments

3 Parliamentary Accountability

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

3.2.7 This note is in two parts:
a) Note 3(a) reconciles the net resource outturn (from Note 2) to the net operating cost shown in the Statement of Comprehensive Net Expenditure. Reconciling items, other than capital grants to external bodies (treated as resource expenditure in the Statement of Comprehensive Net Expenditure but as capital in budgets) [and differences related to differing budget / accounts treatment of PFI] will be rare, but might include prior period adjustments relating to errors or accounting policy changes at the instigation of the department itself, and occasional non-budget income or expenditure.

b) Note 3(b) shows outturn against the Administration Budget and a reconciliation to Administration income and expenditure included in the Statement of Comprehensive Net Expenditure.

11 Income and Expenditure

Administration and Programme Expenditure

11.3.3 In Spending Reviews, administration budgets are set for most central government departments (including their agencies and other Arms Length Bodies) unless specific exemptions have been agreed with the relevant authority for example the BBC. Public Corporations are excluded from the regime along with other self-funded, net-funded and fully levy funded bodies and bodies that do not receive any Consolidated Fund funding, and independent parliamentary bodies. The devolved administrations are also not set administration budgets in Spending Reviews, but these bodies operate their own arrangements for constraining the costs of running central government. Details of administration budget regimes can be obtained from the relevant authorities. Expenditure that does not fall within administration budgets is known as programme expenditure. Expenditure classified as Annually Management Expenditure (AME) for budgeting is assumed to be programme. Expenditure and income should therefore normally be shown separately in the Statement of Comprehensive Net Expenditure, or equivalent, under two headings – administration costs and programme costs. In Scotland, administration costs are those voted to, incurred by, and reported against the Administration Department.

11.3.4 The classification of expenditure and income as administration or as programme in the department's resource accounts should follow the definition of administration costs provided by the relevant authority. Agencies and other ALB’s that are excluded from the administration budget regime should make it clear either in the Statement of Comprehensive Net Expenditure or in the notes to the accounts that their expenditure is programme.

13 Accounting for Consolidated Fund Revenue

13.1 Introduction

13.1.1 This chapter deals with revenue (and some associated expenditure) collected by entities on behalf of the Consolidated Fund. Although the Consolidated Fund is the source of most government funding and is the destination for unspent funds, this chapter does not cover the generality of those funding flows. It is more specifically about the collection of revenues which by statute or convention are due to the Consolidated Fund and where the entity undertaking the collection is consequently acting as agent rather than principal. This chapter does not cover accounting by the Consolidated Fund for the revenues received.

13.1.2 The majority of the revenue sources covered by this chapter are either taxation or fines and penalties. There are, however, some smaller revenue streams that fall within its scope, such as the proceeds of confiscation orders and amounts incidentally collected for third parties.

Fines and penalties

13.3.6 Fines and penalties are recognised at the time that the fine or penalty is imposed and becomes receivable by the entity. Where, on appeal, or for other legal reasons, the penalty is cancelled, the amount receivable is derecognised at the date of the successful appeal. Where a financial penalty is imposed, but with an alternative of a non-financial penalty, the financial penalty is recognised initially, but is derecognised when (and if) the option of the non-financial penalty is taken up.

13.3.7 Where fines and penalties are uncollectible or, for policy reasons (other than the imposition of an alternative penalty), the entity decides that it is inappropriate to pursue collection, the amounts not collected are recorded as an expense. The amounts not collectible are estimated from the most appropriate data available to the entity.

Tax expenses

13.3.8 In the UK the main form of tax expense is personal tax credits. Tax credits are recognised in the Statement of Comprehensive Net Expenditure of the department which has responsibility for their payment. Where the financing required to fund tax credits may be deducted by statute from tax revenues collected before those revenues are remitted to the Consolidated Fund, the deduction and payment of these amounts is recorded in the trust statement as an appropriation of the revenue received.

13.4 Reporting

13.4.1 HMRC and certain other receivers of money which is by law payable into the Consolidated Fund are required to prepare accounts in a form to be directed by the Treasury and which are to be examined and reported on by the Comptroller and Auditor General.

13.4.2 The intention of the underlying legislation[2] is to require those entities collecting revenue on behalf of the Consolidated Fund to prepare separate statements ("Trust Statements"), from those for the entity and to include in Trust Statements details of the collection and allocation of that revenue.

13.4.3 The Treasury (or, where appropriate, sponsor department) will issue an accounts direction to each entity producing a Trust Statement; the format will be defined in the accounts direction. It will usually follow the principles set out in Chapter 5 "Form and Content of the Annual Report and Accounts" and must be published as part of the Annual Report and Accounts except where the Treasury or sponsor department directs otherwise. The requirement will be based on the underlying legislation for those entities within the scope of 13.4.1 above, and based on s7 of the Government Resources and Accounts Act for other entities.

Trust Statements

13.4.4 Trust Statements shall include the following revenue:

a) all income classified as taxation by the Office for National Statistics except where by statute the entity is permitted to keep that income;
b) all amounts which, by statute, are to be surrendered or paid into the Consolidated Fund (either by the entity directly or by passing the collected funds to a third party who then pays over the amounts collected) or to another third party within Government;
c) all fines and penalties levied except where the entity is permitted by statute, or with Treasury consent, to retain the penalties imposed;
d) any other income which the Treasury may direct to be included.

13.4.5 Trust Statements shall also include the following expenditure:

a) the costs of collection and administration where there is express statutory provision for those costs to be deducted from the revenue collected;
b) the costs of compensating (limited to repayments and interest) those from whom taxes or penalties have been incorrectly collected. Other elements of compensation and related costs shall be accounted for in departmental accounts;

2 As required by The Exchequer and Audit Departments Act 1921

c) any provision for uncollectible amounts measured in accordance with IAS 39.

13.4.6 Where legislation requires or permits part of the revenue collected to be surrendered and part to be retained by the entity, the full amount shall be included in the Trust Statement, and the amount to be retained shall be recorded as an appropriation of net revenue in the Trust Statement (and, equally, as revenue in the Statement of Comprehensive Net Expenditure).

ANNEX C

Minor Amendments to 2011-12 FReM Chapter 13, Accounting for Consolidated Fund Revenue

BACKGROUND

Chapter 13 principally deals with revenue collected by entities on behalf of the Consolidated Fund (CF), specifically about the collection of revenues which by statute or convention are due to the Consolidated Fund. The entity undertaking the collection is consequently acting as agent rather than principal for the revenues. This chapter was introduced in 2010-11 and where relevant, departments and their ALBs produced trust statements, most for the first time, to separately record the revenue collected (and some associated expenses) on behalf of the CF. Subsequently, some departments and the NAO proposed some changes or highlighted areas that required clarification or further guidance. These issues have been considered and the proposed changes are aimed at improving the clarity of the drafting rather than the substance, and therefore considered minor or explanatory. Therefore the proposed changes have not been subject to the full consultation process through a FReM exposure draft.

PROPOSED CHANGES

The following changes (outlined n boxes) are proposed to Chapter 13. The additions are in blue and deletions in red, followed by an explanation for the change.

FReM para 13.1.2

13.1.2	The majority of the revenue sources covered by this chapter are either taxation or fines and penalties. <u>There are however some smaller revenue streams that fall within its scope, such as the proceeds of confiscation orders and amounts incidentally collected for third parties</u>.

This amendment is to cover the circumstances where taxes, fines and penalties are being collected, and other amounts are handled through the same process, but are incidental to the main transaction. So, for example courts impose confiscation orders and order payment of compensation, and these amounts are handled with the primary penalty, but are different in kind and may be paid to a third party. Similarly, student loan repayments are handled by HMRC alongside PAYE and NI as they are paid over by employers within a single PAYE stream.

FReM para 13.3.6 and 13.3.7

13.3.6	Fines and penalties are recognised at the time that the fine or penalty is imposed and becomes receivable by the entity. Where, on appeal, or for other legal reasons, the penalty is cancelled, the amount receivable is derecognised at the date of the successful appeal. <u>Where a financial penalty is imposed, but with an alternative of a non-financial penalty, the financial penalty is recognised initially, but is derecognised when (and if) the option of the non-financial penalty is taken up.</u>

13.3.7	Where fines and penalties are uncollectible or, for policy reasons (other than the imposition of an alternative penalty), the entity decides that it is inappropriate to pursue collection, the amounts not collected are recorded as an expense. The amounts not collectible are estimated from the most appropriate data available to the entity.

These two amendments follow an issue raised by MoJ in relation to the practice of courts in some circumstances of allowing either payment of a fine or an alternative penalty, or of cancelling a fine if a further offence is committed and a custodial sentence is imposed in relation to both offences. The purpose of this amendment is to ensure that in those circumstances the penalty is derecognised rather than written off.

FReM para 13.3.8

13.3.8	In the UK the main form of tax expense is personal tax credits. Tax credits are recognised in the Statement of Comprehensive Net Expenditure of the department which has responsibility for their payment. Where the financing required to fund tax credits may be deducted by statute from tax revenues collected before those revenues are remitted to the Consolidated Fund, the deduction and payment of these amounts is recorded in the trust statement as an appropriation of the revenue received.

This is a minor clarification as there are some small Corporation Tax credits as well as personal tax credits. Some of the Corporation Tax credits are not tax credits in the IPSAS 23 sense as they are effectively tax allowances, and the text is therefore inapplicable to them.

FReM para 13.4.4

13.4.4 Trust Statements shall include the following revenue:

a) all income classified as taxation by the Office for National Statistics except where by statute the entity is permitted to keep that income;
b) all amounts which, by statute, are to be surrendered or paid into the Consolidated Fund (either by the entity directly or by passing the collected funds to a third party who then pays over the amounts collected) or to another third party within Government;
c) all fines and penalties levied except where the entity is permitted by statute, or with Treasury consent, to retain the penalties imposed;
d) any other income which the Treasury may direct to be included.

Although most taxes are retained by departments through statutory provisions, there are some where the underlying legislation says that the amounts collected must be paid into the Consolidated Fund unless the Treasury directs otherwise. The amendment at sub section c) covers the possibility of such a direction. The amendment at sub section d) gives effect to the amendment in 13.1.2, referred to above.

FReM para 13.4.5

13.4.5 Trust Statements shall also include the following expenditure:

a) the costs of collection and administration where there is express statutory provision for those costs to be deducted from the revenue collected;
b) the costs of compensating (limited to repayments and interest) those from whom taxes or penalties have been incorrectly collected. Other elements of compensation and related costs shall be accounted for in departmental accounts;
c) any provision for uncollectible amounts measured in accordance with IAS 39.

It has been the long standing practice that, in cases of maladministration, the costs of compensation are met from voted funds rather than by deduction from amounts due to the Consolidated Fund. This amendment makes clear that payments incorrectly collected should be repaid from Consolidated Fund revenue, together with any interest (as the Consolidated Fund rather than the department will have benefitted from the interest accruing) but compensation payments should be made from funds authorised by Parliament.

FReM para 13.4.6

13.4.6	Where legislation requires or permits part of the revenue collected to be surrendered and part to be retained by the entity, the full amount shall be included in the Trust Statement, and the amount to be retained shall be recorded as an <u>appropriation of net revenue</u> in the Trust Statement (and, equally, as revenue in the Statement of Comprehensive Net Expenditure)

This amendment corrects an error in the original version. Expenses are amounts deducted from revenue collected, and appropriations are the payment of net revenue to an appropriate beneficiary (in this case, the department).

<u>CONCLUSION</u>

The FReM includes Chapter 13, Accounting for Consolidated Fund Revenue and there are some proposed amendments to the FReM (paragraphs 13.1.2, 13.3.36 to 13.3.38 and 13.4.44 to 13.4.46) to address the issues raised by departments. These amendments improve clarity rather than change the substance of requirements therefore the proposed changes have not been subject to the full consultation process through a FReM exposure draft.