

Restatement of Consolidated Fund Extra Receipts (CFERs) in accounts

Background and Issue

From 2011-12 the budgeting and Estimates treatment for some income streams has changed, permitting departments to retain income that might previously have been surrendered to the Consolidated Fund as a CFER.

Departmental Estimates are now produced on a net basis, allowing departments to retain income that is within the budget and ambit, and to spend this income on delivery of services.

In 2011-12 this income will be recognised in budgets (and consequently the Estimate) as operating income. In 2010-11, receipts for the same activity may have been classified as CFERs.

The 2011-12 Statement of Parliamentary Supply (SOPS) reflects the Estimate for 2011-12, and as such recognises retainable income streams within its control totals.

Without restatement, the 2010-11 comparatives in the SOPS will not recognise retainable income streams within control totals – the receipts will be disclosed as CFERs received and paid over to the Consolidated Fund.

There is a technical issue over whether the 2010-11 comparative data should be restated to reflect CFER receipts as retainable income receipts within the SOPS, and other primary statements.

Treasury View

The Treasury view is that CFER transactions that occurred during 2010-11 should be restated within 2011-12 accounts, and disclosed as if the receipts had been retainable, unless they remain outside of the department's revised ambit.

This view is supported by Parliament which has (exceptionally) agreed that the SOPS should be restated for 2010-11, to enable comparison with 2011-12. The restated SOPS should present the 2010-11 data on the same preparation basis as 2011-12 data.

The restatement cannot impact on actual cash flows. Income that was payable as CFERs at 31 March 2011 will remain payable. The change is primarily how this income is presented in the SOPS comparatives in the 2011-12 Annual Report and Accounts.

For the avoidance of doubt, departments who owed CFERs to the Consolidated Fund at 31 March 2011 must pay these amounts over.

Given the change to the treatment of income for the Estimates process there will be considerably fewer CFERs in the future. To clarify over the nature of any balances on the Statement of Financial Position and flows in the Statement of Cash Flows the amounts reported in 2010-11 as relating to CFERs will be renamed. There will be no change to total assets, total liabilities or the reserves position.

Practical implications

On the assumption that departments should restate the SOPS for 2010-11, the Treasury's preferred method of restatement is to recognise amounts that were previously shown as CFERs as retainable income. In order to make this restatement, departments should restate the level of drawn down supply from the Consolidated Fund. This would not have an impact on the cash flows, but would present drawn down supply in the prior year on the same basis as it would be in the current year.

The rationale for this restatement approach is that, if the department had been entitled to retain income, it would have drawn down less cash to finance activities in the year.

This restated level of deemed supply would then need to be notionally amended to preserve the movement in cash balances in the year, and to retain the level of net assets.

An alternative approach is not to restate the SOPS, and continue to disclose receipts as CFERs within the comparative data. A benefit of this is that previously certified CFER receipts and payments made to the Consolidated Fund would remain unchanged in accounts.

This approach was considered and discounted, as the data presented would not be consistent year-on-year. While the SOPS does not follow IFRS, comparability is a fundamental principle of accounts, and failure to present information on a comparable basis might compromise the true and fair presentation of a set of accounts.

Effects on accounts

The table below demonstrates the effects of restatement on the primary statements:

2010-11	Not restated	restated
SOPS	Income streams shown as CFERS No changes to prior year control totals	Outturn is reported net of retainable income Net Cash Requirement would be restated to include effect of CFERS now being treated as retainable income
CSOCNE	Income streams included as income	No change – amounts still included as income
CSFP	Amounts payable to consolidated fund as CFER payable at year end shown as a creditor	Amounts to be shown as 'Amounts payable to the Consolidated Fund (n.b. Consolidated Fund receivables should NOT be netted off Consolidated Fund payables)

CSCF	Cash receipts and payments shown in a separate line	<p>Cash receipts show as part of operating income / expenditure, rather than as a CFER.</p> <p>Cash payments and cash receipts shown alongside each other in the cash flow statement, but with no reference to 'CFER'.</p> <p>E.g. lines titled 'amounts drawn from the Consolidated Fund' and 'Amounts remitted to the Consolidated Fund'.</p>
CSCTE	Income reconciled out of general fund balance as CFERs	<p>As above, supply drawn down and amounts paid over to the Consolidated Fund shown next to each other, but no reference to CFER.</p> <p>No amounts reconciled out as CFERs.</p>

The presumption is that, in 2011-12, treatment of the income streams will be the same as the restated treatment (except for the manipulation of Supply payable).

In this situation the comparative information would be prepared on the same basis as the 2011-12 information, and as such would enable users of financial statements to draw comparisons between the two statements.

Worked example

In 2010-11, Department Yellow (DY) has CFERs receivable of £1,000, and collects CFERs of £750. All CFER cash received is paid over to the Consolidated Fund during the year, with £250 payable at year end.

Total expenditure on activities is £2,000, for which DY receives £2,000 financing from the Consolidated Fund during the year (assume no trade payables left outstanding).

At the end of the year:

- Net Resource Outturn is £2,000 (income out of ambit)
- Total Comprehensive Net Expenditure is £1,000 (£2,000-£1,000 income)
- Total drawn down funding is £2,000 (Net Cash Requirement)
- Total CFERs are £1,000 (£750 cash paid over to CF)
- Total CFERs receivables on the balance sheet are £250.
- Total CFERs payables on the balance sheet are £250.

Cash received is £2,750, and cash paid out is £2,750 leaving a £nil balance, although the cash flow statement will separately disclose financing received from the Consolidated Fund and negative CFERs to the Consolidated Fund.

Reserves are £nil (£250 receivable asset set against CFER liabilities of £250)

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If we apply the change in accounting / Parliamentary reporting policy, and restate the accounts to recognise CFERs as income, the following changes would affect results for the year:

- Net Resource Outturn is £1,000 (income now in ambit)
- Total Comprehensive Net Expenditure is £1,000
- Total drawn down funding is £2,000
- Total amounts remitted to the Consolidated Fund at £750 (net effect is £1,250 drawn down)
- Total receivables at end of year are £250
- Total payables at the end of the year are £250 (for the extra cash drawn down in the Net Cash Requirement to fund the timing delay of the income receivable – This is now a standard Supply creditor to the Consolidated Fund, NOT a CFER).

As the cash balance held at the year end is unchanged i.e. £nil balance, there needs to be some adjustment to line items in the statement of cash flows, although the Net Cash Requirement will have changed.

Total cash received is still £2,750 still (comprising the amounts drawn down Consolidated Fund financing of £2,000, plus income received of £750) and cash paid out is still £2,750 (£2,000 on expenses and £750 remitted to the Consolidated Fund). This gives the same net cash flow result at the end of the year.

The reserves balance will again be £nil.

The same principles should then be applied to each subsequent year.

When departments carry out this, and other restatements affecting prior year outturn, they should maintain a clear audit trail of all adjustments made. This will form a useful source of audit evidence in gaining assurance over the accuracy of the restated outturn for 2010-11.