

FINANCE AND RESOURCES COMMITTEE

NOTICE

There will be a meeting of the Finance and Resources Committee (FRC) at 1730 hours on 26 August 2025 in the Boardroom and on Teams.

Note: The Chair of the FRC is welcome to attend the ARC and the Chair of the ARC is welcome to attend at the FRC although this is not mandatory practice.

AGENDA

Agenda Item		Paper	Lead
01	Apologies for Absence	N	VA
02	Declaration of any potential Conflicts of Interest in relation to any Agenda items	N	All
03	Minutes of Previous Meetings 13 May 2025	Y	LW
04	Matters Arising from the Previous Meeting	N	LW
05	Matters for Discussion		
05.1	Management Accounts to 31 July 2025	Y	PF
05.2	Cashflow Report	Y	PF
05.3	Quarterly Update – Procurement	Y	PF
05.4	Quarterly Update – Facilities	Y	EMcK
05.5	Quarterly Update - Climate Change Action Team	Y	WMacL
05.6	FRC Work Plan for 2025-26	Y	EMcK
05.7	Reserved Item: Commercially Sensitive Business Innovation: Pipeline of Activity 2025-26	Y	EMcK
05.8	Minimum Financial Assistance Tracker	Y	EMcK
05.9	Principal and Executive Team Expenses for 2024/25	Y	PF
05.10	Accounts Direction 2024-25	Y	PF
05.11	Accounting Policies for Financial Statements 2024/25	Y	EMcK
05.12	Financial Assumptions for Pension Disclosures 2024/25	Y	EMcK
06	Matters for Approval		
06.1	Reserved Item: Commercially Sensitive Finance Forecast Return (FFR) & Supporting Commentary for SFC	Y	PF
06.2	Environmental Sustainability Policy	Y	WMacL
07	Matters for Information		
07.1	Capital Expenditure	Y	EMcK
07.2	CLIC Innovate UK: Progress Update	Y	EMcK
07.3	Reserved item: Commercially Sensitive Legal fee expenditure to 31 st July 2025	Y	EMcK
07.4	Government Financial Reporting Manual (FreM) 2024-25	Y	EMcK

07.5	Financial Sustainability of Scotland's Colleges (Scottish Parliament) Paper-1 Colleges-Cover-Note 18-June	Y	EMcK
07.6	SFC College Infrastructure Investment Plan	Y	PF
08	Any Other Business		
09	Summation of Actions and Dates of Next Meetings		

Key:

DM	Douglas Morrison	Chair – Board of Management
EMcK	Elaine McKechnie	Vice Principal – Finance, Resources and Sustainability
HA	Heather Anderson	Committee Member
LW	Laura Wright	Chair – Finance and Resources Committee
OA	Odira Atueyi	Committee Member
PF	Paddy Feechan	Head of Finance
SG	Scott Gray	Committee Member
SMcM	Stella McManus	Principal
VA	Vari Anderson	Governance Professional
WMacL	Wilma MacLeod	Head of Curriculum

Unconfirmed FRC Minutes

FINANCE AND RESOURCES COMMITTEE

MINUTES

FRC Committee on 13 May 2025 at 0900 hours via Microsoft Teams or in the Boardroom at South Lanarkshire College

Present

Laura Wright, Chair (FRC)
Douglas Morrison, Chair of the Board
Stella McManus, College Principal
Scott Coutts (online)
Scott Gray

In Attendance

Elaine McKechnie
Paddy Feechan
Wilma MacLeod (part)
James Jamieson (part)
Craig Ferguson (part)

Vari Anderson, Governance Professional
Christine Clark (Executive & Governance Administrator)

AGENDA ITEM

- | | |
|-----------|---|
| 01 | Apologies for Absence
None noted.

LW welcomed members to the meeting, including PF as first-time attendee. |
| 02 | Declaration of any potential Conflicts of Interest in relation to any Agenda items
None noted. |
| 03 | Minutes of Previous Meeting – 10 February 2025
The minutes were duly approved . |
| 04 | Matters Arising from the Previous Meeting – 10 February 2025

(Item 6.6 follow on) EMcK advised process to monitor activity regarding MFA will be concluded for next quarter with completion expected in August 2025.

(Item 5.1 and 5.2) LW to arrange introductions for EMcK and PF to meet with HSBC.

(Item 5.4) James Jamieson attended and provided an overview of electricity generated by the College against usage and solar power, adding the College is running as efficiently as possible. |

05	Matters for Discussion
05.1	<p>Management Accounts to 31 March 2025</p> <p>The Committee noted the contents of the report, the financial position for the period and the supporting narrative.</p>
05.2	<p>Cashflow Report</p> <p>The Committee noted the longer term cashflow situation as notified to Scottish Funding Council, and the short term cashflow situation as presented to the SLT monthly.</p>
05.3	<p>Quarterly Update – Procurement</p> <p>The Committee reviewed and acknowledged the continued improvement over this period and that potential savings will continue to be monitored and reported.</p> <p>92% compliance was highlighted and acknowledged. Focus will continue to ensure this remains at a high level.</p> <p>The Committee acknowledged the invoice system and adherence to the APUC contract. The Committee noted that sustainability continues to be a key focus in Procurement and opportunities to build sustainability into each contract will continue to be considered.</p>
05.4	<p>Quarterly Update – Facilities</p> <p>SMcM introduced Craig Ferguson (Head of Facilities) and James Jamieson (Curriculum Manager – Building Service Engineering).</p> <p>The Committee noted the facilities work that has taken place in this reporting period and the contract monitoring review.</p> <p>The Committee acknowledged the data around solar PV generation with the suggestion of target inclusion within future reports. It being noted that College use of renewable energy has increased over the years. Waste reduction was commended by the Committee, it being noted that the general waste category has dropped significantly in this period.</p>
05.5	<p>Quarterly Update – Climate Change Emergency Action Plan</p> <p>The Committee noted the contents of the report and the ongoing work across the College in supporting the delivery of 'net zero' targets along with the growing requirement of the College to provide sustainability reporting to various agencies.</p> <p>The Committee was advised that a draft Sustainability Policy has been prepared by the Climate Change Leads and is subject to approval of the SLT and the Board of Management.</p> <p>The Committee commended the actions around addressing climate change across the College.</p>

	<p>Suggestion of possibility for further promotion around climate change e.g. Staff Development Day and/or Staff Survey.</p> <p>Challenges including lack of funding is acknowledged but continues to be monitored by the College's Climate Change Leads.</p>
05.6	<p>Voluntary Severance Scheme: Financial Impact (Reserved – Commercially Sensitive)</p> <p>The Committee were provided with an update on the Voluntary Severance Scheme, the details of which cannot be published as they are commercially sensitive.</p> <p>ACTION: HRC to be updated with statistics regarding VS to include number of expression of interests received, number of applications received, outcomes of applications and number of appeals received.</p>
06	Matters for Information
06.1	<p>Capital Expenditure Plan</p> <p>The Committee noted the level of capital investment incurred for the period to 31 March 2025 (not yet audited) and the College's continued plan for capital expenditure in respect of 2024-25.</p> <p>Discussion around a plan in the event of budget reduction, deviations throughout the year, establishment of a capital investment policy and procedure, and project bids currently being worked on.</p>
06.2	<p>Legal Fee Expenditure: Employment Tribunal (Reserved – Commercially Sensitive)</p> <p>Prior to the introduction of this agenda item, CF, JJ and WMacL were thanked for attending and requested to leave the room.</p> <p>The Committee were provided with an update on the legal fee expenditure, the details of which cannot be published as they are commercially sensitive.</p>
06.3	<p>CLIC Innovate UK: Progress Update</p> <p>The Committee reviewed the update and noted a further successful application for funding, planned workshops and auditor sign-off on last quarter's claim.</p>
07	Matters for Approval
07.1	<p>Draft Budget 2025-26 (including Indicative Funding Allocation analysis)</p> <p>The Committee noted the assumptions used in the budget setting process, the financial projections for 2025-26, capital expenditure projection, cashflow and the Statement of Financial Position for 2025-26.</p> <p>Discussion included clarity around the revised grant funding methodology as advised by SFC and noted the scheduled Financial Directors Network meeting (6th June 2025), as an action point it was requested that the executive team</p>

	<p>provide sight of opportunities and/or relationship pipeline for diversification for the next FRC meeting.</p> <p>The Committee approved and remitted to the Board with a caveat that FRC seek a better financial position for the year end.</p> <p>ACTION: Clarity around methodology and sight of opportunities and/or relationship pipeline for diversification, including examples of unsuccessful bids.</p>
07.2	<p>Mid-Year Review & Supporting Commentary for SFC</p> <p>The Committee noted the terms of the Mid-Year Review, and the assumptions utilised in the completion of the financial inputs to the MYR for 2024/25.</p> <p>The Committee approved same and remitted to the Board.</p>
08	Any Other Business
	<ul style="list-style-type: none"> • Thanks, extended to PF for his support and attendance. • Congratulations extended to LW for her 1st Chairing of this FRC meeting. • SC advised the Committee of the CECA graduation on 11 June 2025, VA advised that an e-mail would be circulated to the Board
09	<p>Summation of Actions and Date of Next Meeting – 26 August 2025 (tbc)</p> <p>ACTIONS:</p> <p>Item 5.6 - HRC will be updated with statistics for VS to include: number of expression of interests received, number of applications received, outcomes of applications and number of relative appeals.</p> <p>Item 7.1 - Clarity around grant funding methodology from SFC requested, it being noted that there's a Finance Directors Meeting in June. If information not forthcoming, Chair of the Board will write to SFC. Request for sight of opportunities and/or relationship pipeline for diversification, including examples of unsuccessful bids.</p>

FINANCE & RESOURCES COMMITTEE

DATE	26 August 2025
TITLE OF REPORT	Management Accounts to 31 July 2025 & Cashflow
REFERENCE	05.1 and 05.2
AUTHOR AND CONTACT DETAILS	Paddy Feechan, Head of Finance paddy.feechan@slc.ac.uk
PURPOSE:	To update Members on management accounts to 31 July 2025 in conjunction with a projection of cashflow based on actual income and expenditure.
KEY RECOMMENDATIONS/ DECISIONS:	Members are asked to: <ul style="list-style-type: none"> • note the contents of the report, the financial position for the period and the supporting narrative; and • note the longer term cashflow situation as notified to Scottish Funding Council and the short term cashflow situation as presented to the SLT monthly.
RISK	The main risks are to: <ul style="list-style-type: none"> • Going concern; that the College cannot maintain financial sustainability and is unable to provide high quality education and support to its students; and that • There are insufficient funds for capital maintenance and maintenance requirements.
RELEVANT STRATEGIC AIM:	<ul style="list-style-type: none"> • The Student Experience • Growth and innovation • Sustainability
SUMMARY OF REPORT:	<ul style="list-style-type: none"> • The report contains a summary of income and expenditure for period ended 31 July 2025. • The Committee is asked to note a draft operating deficit of £2.005M as at 31 July 2025. • The cash flow report suggests that the College cash balance will land around £1.8M by Jul 2027. This is contingent on the College growing and diversifying revenue streams and recognising continued cost efficiencies and procurement savings.

1 INTRODUCTION

- 1.1. This paper provides an overview of actual financial results for the period ending 31 July 2025 in conjunction with a projection of cashflow for academic year 2025-26 based on actual income and expenditure to 31 July 2025.

2 BACKGROUND

- 2.1 Learning and teaching core funding in 2024/25 has been maintained at the same level as 2023/24.
- 2.2 The 2.89% funding cut in 2024/25 means that the College needs to be more proactive in managing its cost base and identifying greater commercial income activity to try and protect resources and bring more financial stability to its operations over the next two years.
- 2.3 The restructure and Voluntary Severance initiative has brought some financial stability to the College in the absence of funding increases. However, the College remains aware of the unavoidable impact of nationally agreed pay awards and employer National Insurance and pension rate increases which will erode the temporary savings realised through Voluntary Severance entirely within 2-3 years.

3 ASSUMPTIONS AND LIMITATIONS

- 3.1 The Committee is asked to consider the limitations of the management accounts process at this current stage in the academic year; primarily:
- 3.1.1 The College are yet to make any financial adjustments on the 31 July 2025 Management Accounts in preparation for the creation of the Year End Statutory Accounts. Adjustments will focus on Balance Sheet transactions, but this could have an impact on Profit and Loss for the Year.
- 3.1.2 Any adjustments made in future weeks will be detailed and brought to the next Committee for clarity in the form of a bridge from the management accounts to year end statutory accounts.

4 MANAGEMENT ACCOUNTS: OPERATING SURPLUS/(DEFICIT)

- 4.1 The College has recognised a full year-to-date operating deficit of £2.005M.
- 4.2 While the College minimises expenditure where possible and continually engages in procurement activity to ensure best value in all major contracts, the results have been negatively impacted by a £460K overspend in salaries primarily due to under provision of curriculum pay awards that were concluded in the first quarter of 2024/25 and higher than anticipated temporary lecturing costs.

5 MANAGEMENT ACCOUNTS: INCOME

- 5.1 Total income for the year of £19.077M has been received, with £13.724M relating to Scottish Funding Council (SFC) recurring grants, representing 71.9% of total income. SFC grant funding accounted for 80.1% of the college's income in 2023/24 (82.6% in 2022/23) and the national average, based on the SFC's review of 2021/22 college data, was 78%.

5.2 Funding from the Scottish Funding Council has been received across August – July 2025 in line with monthly drawdown submissions.

5.3 Non-recurrent SFC funding of £630K primarily contains provisions for the partial conversion of capital funding to revenue related maintenance funding at 50% as confirmed by the SFC in December 2024. £425K has been recorded for the twelve months to July 2025. Similarly, funding towards the SPPA employer rate pension increase from 23% to 26% has been recognised as at 31 July 2025, totalling £205K.

5.4 Fees of £2.831M reflect all course fees, vocational courses, school provisions and commercial income for the year 2024/25.

5.5 Other contracts of £283K contain £73K in respect of Numeracy funding to 31 July 2025 and £210K in respect of Employability Hub (formerly Rural Academy).

5.6 Other revenue grants contain income of £144K in respect of UKRI Innovate UK funding to 31 July 2025 and £7K in respect of 'Go Radio' sponsorship from the Foundation, enabling students to take part in a sector-wide competition to become 'Podstars'. The income is recognised in full.

5.7 Other income of £38K primarily contains £37K in respect of the Nursery rental.

5.8 Investment income of £46k includes £14k in respect of bank interest generated on the Treasury Reserve account which expired in early February 2025. No further deposit of funding has been made into a treasury reserve account at this time.

6 MANAGEMENT ACCOUNTS: EXPENDITURE

6.1 Wages and salaries are £14.883M YTD, being over budget by £460K primarily due to under provision of curriculum salary pay awards that were settled in the first quarter of 2024/25. The overspend on teaching department salaries amounts to £169K alone.

6.2 Non salary expenditure/overheads of £6.198M (versus £5.577M budget) are overspent by £621K.

6.2.1 Property expenditure is over budget by £249K which largely reflects the cost of the utility bill VAT correction from the previous four years, amounting to £178K together with above average inflationary increases on many service contracts utilised by the College.

6.2.2 Net depreciation refers to the cost of depreciation that is met through self-funding initiatives as opposed to specific grant funding received and amortised at the same rate as the underlying asset depreciates. Following the removal of the £10M residual value from the College building in the end of year statutory accounts, it is recognised that there will now likely be an increased net depreciation charge across the year of circa £200K, which has been recognised in the financial results to 31 July 2025.

- 6.2.3 Generic accruals have been made totalling £210,000 across property, central services and cross-college costs in recognition of the year end statutory accounts balance sheet production processes not yet taking place.

7 CASH FLOW

- 7.1 The College makes its cashflow return to the Funding Council each month. This incorporates its required drawdown, based on the grant in aid allocation, and it also incorporates a cashflow forecast for the year. The latest submission was made in August 2025. The next submission is due 14 September 2025.

- 7.2 The Committee is asked to note:

- 7.2.1 The estimated cash outflow of circa £1.8M by July 2027.

- 7.3 The College currently has £1.9M of actual cash funds in the bank as at the end of July 2025. Allowing for SFC continued funding and despite the remaining circa £300k of voluntary severance payouts pending, the cashflow projection at section 10 suggests the College will operate within a range of £2M - £2.3M in funds each month until Nov 2026, before cash balances erode to £1.8M by Jul 2027. As a rule of thumb, it is in the College's interest to hold at least enough funding each month to pay employees the following month, which will be nearer £1.2M in cash reserves (including tax and NI cash implications and allowing for the £1M annualised salary saving from Voluntary Severance).

- 7.4 The College reinforces its commitment to a review of investment banking facilities including the scoping out of a project to hold money in a higher interest generating account. Discussions have been had with banking institutions. Further internal discussions are now required to allow the college to maximise the impact of the cash held at bank.

- 7.5 The College also recognises that the continuation of cash in the bank is contingent on the College growing and diversifying revenue streams and recognising continued cost efficiencies and procurement savings.

- 7.6 The College will continue to closely monitor cashflow monthly and bring updates on a timely basis.

8 MANAGEMENT ACCOUNTS TO 31 JULY 2025

SOUTH LANARKSHIRE COLLEGE			Period Ended 31st July 2025		
Management Accounts for the period ended 31st July 2025		Note	Actual	Budget	Variance
			£'000	£'000	£'000
INCOME					
<u>Scottish Funding Council grants</u>					
SFC recurrent grant			13,724	13,724	0
SFC non recurrent grants - other			630	388	(242)
Release of government capital grants			805	805	(0)
FE and HE Childcare			328	406	78
Total			15,487	15,323	(164)
<u>Tuition fees and education contracts</u>					
UK Higher Education students			819	858	39
Non EU Higher Education students			16	13	(3)
UK Further Education students			1,460	1,152	(308)
SDS contracts			536	567	31
Other contracts			283	264	(19)
Total			3,115	2,854	(261)
<u>Other Income</u>					
Other revenue grants			151	122	(29)
Other income			38	141	103
Release of ERDF deferred capital grant			96	96	0
Release of Scottish Government deferred capital grant			139	139	0
Release of Energy Saving Partnrship deferred capital grant			5	5	0
Release of Business Stream deferred capital grant			0	0	0
Release of SLC Foundation capital grant			0	0	0
Total			430	503	73
Investment Income			46	20	(26)
Total Income			19,077	18,700	(377)
EXPENDITURE					
<u>Staff Costs</u>					
Teaching departments			9,128	8,959	(169)
Teaching services			2,109	2,085	(24)
Administration and central services			2,223	1,911	(312)
Premises			951	968	17
Other support services			474	500	26
			14,883	14,423	(460)
<u>Non Salary Expenditure</u>					
Property			1,609	1,360	(249)
FE and HE Childcare			328	406	78
Net Depreciation			1,780	1,579	(201)
Central Services			768	771	3
Marketing			159	100	(59)
Academic supplies			1,389	1,231	(158)
Cross College Costs			165	131	(34)
			6,198	5,577	(621)
Total Expenditure			21,082	20,000	(1,081)
Surplus / (Deficit)			(2,005)	(1,300)	704

9 SHORT TERM CASH FLOW PROJECTION

South Lanarkshire College				
Short term cash flow forecast				
Aug-25				
Balance at 31 July 2025	A	1,902,600	Note anticipated balance of £2.0M	
		Expected	Actual	
Inflow				
SFC grant in aid drawdown		1,413,084		Month 1 of drawdowns
SFC student support drawdown		404,423		Month 1 of drawdowns
SFC Capital Grant		89,188		Month 1 of drawdowns
SFC Support for NI increase		0		Month 1 of drawdowns
		1,906,695		
Other (inc. fees)		250,000		
Expected inflow for Aug 2025	B	2,156,695		
Outflow				
Salaries - net pay		(993,105)		Payable 26th August 25
Salaries - deductions		(500,000)		Employee & employer salary contributions for July 25 payable in Aug 25
Student support		(404,423)		
Purchase ledger		(200,000)		
Capital grant expenditure		(50,000)		
Expected outflow for Aug 2025	C	(2,147,528)		
Movement during the month	(B - C) = D	9,167		
Expected cash at 31 Aug 2025	(A - D) = E	1,911,767		
Sums ring-fenced & carried forward from earlier financial years into 2025/26				
Salary award		0		Curriculum staff
Job evaluation - unfunded		0		Additional Job Evaluation unfunded accrual LTD as at 31 Jul 24 now removed
Capital expenditure		321,077		Per CAPEX funding received for 25/26
ESF clawback provision		0		
Building retention		32,000		
Student funding to be repaid		0		
Apprentice support fund		6,000		
	F	359,077		
Cash provisions for items carried from 2024/25 budget				
Professional fees		0		Includes £50K provision
ET		0		Estimation of potential ET costs now removed however College remains aware of potential Appeals process
Voluntary Severance		300,000		Estimation of residual cash outlay to be expended (primarily pension strain costs for 26/27 and 27/28)
	G	300,000		
Funds to be retained from cash balance				
	(F + G) = H	659,077		
Free funds forecast at 31 Aug 2025	(E - H) = J	1,252,690	Note: one month's salaries = £1.2m	

11 Table 1 Cashflow projection

7

12 EQUALITIES

- 12.1 There are no new matters for people with protected characteristics or from areas of multiple deprivation which arise from consideration of the report.

13 RISK AND ASSURANCE

- 13.1 The main risks are:

13.1.1 Going concern; that the College cannot maintain financial sustainability and is unable to provide high quality education and support to its students; and that

13.1.2 That there are insufficient funds for capital maintenance and maintenance requirements.

13.2 Assurances continue to be given by the College that work will continue to progress monthly reporting development across 2025-26. Furthermore, the College is committed to monitoring its cashflow in both the short and long term and with more robust monthly reporting, the College will continually aim to be proactive in managing its finances against the context of a challenging year due to sectoral funding cuts and general inflationary pressures.

14 RECOMMENDATIONS

- 14.1 Members are recommended to:

14.1.1 note the contents of the report, the financial position for the period and the supporting narrative; and

14.1.2 note the longer term cashflow situation as notified to Scottish Funding Council and the short term cashflow situation as presented to the SLT monthly.

FINANCE AND RESOURCES COMMITTEE

DATE	26 August 2025
TITLE OF REPORT	Procurement Update
REFERENCE	05.3
AUTHOR AND CONTACT DETAILS	Sue Hampshire, Procurement Manager Sue.Hampshire@slc.ac.uk
PURPOSE:	To update the Committee on the Procurement function
KEY RECOMMENDATIONS/ DECISIONS:	Members are asked to: <ul style="list-style-type: none"> • Review and acknowledge that Procurement has been continuously improving over this period. • Support the approval of the 4-year Waste Management Services tender at the anticipated value of £256k; and • Acknowledge that all potential savings will continue to be monitored and reported to the Board.
RISK	<ul style="list-style-type: none"> • That there is a failure of Corporate Governance arrangements and / or Financial Controls where the College does not follow Scottish Government procurement guidance. • The College does not receive value for money. • The College does not have sufficient resource to undertake full procurement due diligence and process.
RELEVANT STRATEGIC AIM:	<ul style="list-style-type: none"> • The Student Experience • Sustainability
SUMMARY OF REPORT:	<ul style="list-style-type: none"> • The Annual Procurement Strategy is being reviewed and will be available for Board consumption in November 2025. • Sustainability remains important and the College Procurement function is also looking at what is termed “circular procurement” which sets out an approach to green public procurement. • The new mobile phone agreement provides a £9,600 tech fund to replace old handsets which a great benefit to the college • 5 tenders were awarded in the quarter of which 4 were via Framework Agreement and 1 via Quick Quote. • The Waste Management Tender is a good example of cross-sector collaboration with partner New College Lanarkshire, despite the de-regionalisation. This tender is set to realise mutual benefits in the form of cost efficiencies.

1 INTRODUCTION AND OVERVIEW

- 1.1 The College is continuing to make progress on procurement process and procedures and is currently working towards refreshing all procurement procedures, processes and templates; training on which will subsequently be delivered to all staff in due course.
- 1.2 The College has a contract with APUC for a 1.0 FTE procurement professional to provide procurement services for the College.
- 1.3 On 13 August 2025, the Supply Chain Manager delivered an information workshop entitled 'Procurement 101' as part of the College Staff Conference Day. This overview was well received by colleagues who attended and further training materials will be developed across the year to enhance this initial offering.

2 PROCUREMENT REPORTS

- 2.1 The Procurement Strategy and Action Plan 2025/26 is currently being revised to reflect the new SLC Strategy 2025-2030. This will come to the Committee in November 2025 once all internal approvals have been sought.
- 2.2. The next Operational Procurement Review will take place in 2027.

3. SUSTAINABILITY AND CARBON REDUCTION

- 3.1 Sustainability continues to be a key focus in Procurement and opportunities to build sustainability into each contract will continue to be considered. Procurement will also ensure that the College builds carbon reduction into the tendering exercise as it is important to adjust the working practices to enable us to reduce the carbon footprint. The College has targets for reducing indirect emissions of greenhouse gases and to report on how the College will align spending and use of resources with emissions reduction efforts.
- 3.2 The College Procurement function is also looking at what is termed "circular procurement" which sets out an approach to green public procurement. This includes paying special attention to "the purchase of works, goods or services that seek to contribute to the closed energy and materials loops with the supply chains, whilst minimising, and in the best case avoiding, negative environmental impacts and waste creation across the whole life cycle". This will be embedded into the procurement policy and processes. For example: potentially leasing, rather than owning, vehicles.
- 3.3 The Supply Chain Manager will attend the Climate Change Action Team (CCAT) to obtain information on anything that could be included in future procurement activities and to advise on opportunities for Community Benefit. This a great selection of peers all across the organisation exchanging ideas and challenging the narrative. The group is actively participating in the delivery of the climate change strategy and FNT2030 within the college.
- 3.4 Community Benefits – The new mobile phone agreement provides a £9,600 tech fund to replace old handsets which a great benefit to the college.

- 3.5 The Supply Chain Manager has collated data for **From Now To 2030** (FNT2030), a Scottish Government initiative to reduce the carbon footprint to zero by the year 2030, under the distinct categorises below. This relates to the sustainability strategic aims targeted at 2030, linked to the UC Sector Climate Strategy (May 2022) signed by all College Principals.
- 3.6 FNT2030 has been broken into distinct categories that are required to be reported on to the Scottish Government as follows:
- 3.6.1 Energy
 - 3.6.2 Food
 - 3.6.3 Furniture
 - 3.6.4 IS
 - 3.6.5 Labs and
 - 3.6.6 Travel
- 3.7 However, there are other sustainability targets throughout all the Universities and Colleges aimed at 2038 which are currently being reported back to the Scottish Government so the collated information will be combined to prevent a duplication of effort.

4 SINGLE SOURCE JUSTIFICATIONS – SINCE LAST REPORT

4.1 *The following contracts were awarded via a Single Source Justification*

4.1.1 *Table 1. Single Source Justifications*

Service	Supplier	Curriculum/Service Area
Wood Machinery Servicing	AWMS Machinery	Carpentry and Joinery
Google Analytics	FE Marketing	Marketing
Culture Shift	Licence and use of IT System Platform	Student Services

4.2 Note that the College is obliged to report on all single source justification awards.

5 CONTRACT STATUS

5.1 The following contracts are due for renewal:

5.1.1 *Table 2: Contracts due for renewal*

Contract	Expiry	Anticipated Procurement Process
Waste Management Services	16/01/2025	Mini Competition via Framework
Microsoft Licences	30/08/2025	Framework Agreement
AI Powered Software Service	New	Seeking SSJ approval via Funding Council
Report and support	28/11/2025	Mini Competition
Adobe Creative	10/08/2025	Framework Agreement
Plagiarism Software	12/12/2025	Mini Competition via Framework
Construction Portal Library	19/10/2025	Framework Agreement

5.2. The following contracts are next to be placed:

5.2.1 *Table 3: Contracts to be placed*

Contract	Type	Anticipated Procurement Process
Plagiarism Software	Renewal	Framework Agreement
Janitorial & Domestic Supplies	New	Framework Agreement/ Open Procedures
Security Guards	New	Framework Agreement

5.3 The following existing contracts due for extension:

5.3.1 *Table 4: Contracts currently due to be extended*

Contract	Extension period	Date to be extended
IPAD Accessories	12 months	22/09/2025

5.4 The following contracts are in the tender process and will be awarded in due course:

5.4.1 Table 5: Contracts currently in the tender process

	Service	Area	Process	Stage	Via
1	Employee Assistance Program and Occupational Health Services	HR	Framework Agreement	Evaluation	SH
2	Janitorial Supplies	Facilities	Framework	Strategy	SH
3	Security Guards	Facilities	Framework	Strategy	SH
4	Plagiarism Software	Digital	Framework	Strategy	SH
5	Microsoft Enterprise Agreement	Digital	Framework	Award	SH
6	Adobe	Digital	Framework	Award	SH
7	SLC/NCL Waste Management	Facilities	Framework	Evaluation	APUC

5.5 The following contracts have been awarded since last report:

5.5.1 Table 6: Contracts that have now been placed via tenders and / or extended

Service	Contracted	Awarded to:	Value	Process	Via
Kitchen Deep Clean	09/05/2025	Plover Ltd	£14,400	Quick Quote	SH
Barber's Room Refurbishment (Incl Flooring)	30/06/2025	Salon Alternative Ltd T/A Hair & Beauty World	£31,471	Quick Quote	SH
Symmetry Upgrade to Cloud	09/06/2025	Symmetry	£149,000	Framework Agreement	SH
Theatrical Make up	24/06/2025	E.A Ellison	£24,000	Mini Competition via	SH

				Framework Agreement	
Mobile Voice & Data Services	11/08/2025	Vodafone	£35,193	Framework Agreement	SH

6 CONTRACT SAVINGS

- 6.1 Mobile Voice & Data Services_- Overall potential saving of £6,795 over 3 years and will increase if the optional 1 x 12-month extension is utilised.
- 6.2 Symmetry –contract saving is £4,458 for the first 12 months of this contract.

7 WASTE MANAGEMENT SERVICES TENDER

- 7.1 The Waste Management tender is a C1 collaboration with New College Lanarkshire (NCL) issued under APUC Framework Agreement: EFM1055-AP – Waste Stream A – General Waste, Recyclates and Recoverables under Lot A2 – Central, West and South of Scotland Region. Even though the colleges have gone through disaggregation which occurred on 30 July 2025, the two colleges are still working collaboratively on procurement projects where there is mutual benefit.
- 7.2 The tender was issued on 18th July 2025, and the tender return date is 25th August 2025. The anticipated value of the tender for SLC for a period of 4 years is £256k. We are hoping to conclude the evaluation by the beginning of October. If there is a change in supplier, we would like a 12-week lead in due to changes to bins, skips, etc and NCL have a bespoke sawdust container which needs additional time. So, the tender award will be around 20th October 2025. Once the Evaluation has taken place a tender Award report will be provided at that time.
- 7.3 As the future committee dates are later in the year, to meet the required timescales, SLC are seeking approval to proceed with this tender at the anticipated value of £256k.

8 EQUALITIES

- 8.1 The College aims to conduct its procurements in an open and inclusive manner with the procurement strategy objectives at the forefront. There are no new matters for people with protected characteristics or from areas of multiple deprivation which arise from consideration of the report.

9 RISK AND ASSURANCE

- 9.1 The main risks are that:

- 9.1.1 there is a failure of Corporate Governance arrangements and / or Financial Controls where the College does not follow Scottish Government procurement guidance;
- 9.1.2 The College does not receive value for money; and
- 9.1.3 The College does not have sufficient resource to undertake full procurement due diligence and process.

9.2 The College assures the Committee that in seeking to optimise the use of national, sectoral, local, or regional collaborative contracts and frameworks, the burdens of risk, contract and supplier management are shared and the number of resource-intensive formal local tenders that need to take place is reduced significantly. The College feels sufficiently supported in all procurement exercises.

10 RECOMMENDATIONS

10.1 Members are asked to:

10.1.1 Review and acknowledge that Procurement has been continuously improving over this period.

10.1.2 Support the approval of the 4-year Waste Management Services tender at the anticipated value of £256k; and

10.1.3 Acknowledge that all potential savings will continue to be monitored and reported to the Board.

FINANCE AND RESOURCES COMMITTEE

DATE:	26 August 2025
TITLE OF REPORT:	Facilities Update (Reporting Period: April - June 2025)
REFERENCE	05.4
AUTHOR AND CONTACT DETAILS	Deborah Lawson and James Jamieson Deborah.Lawson@slc.ac.uk Depute Head of Facilities James.Jamieson@slc.ac.uk ; Depute Head of Curriculum
PURPOSE:	To provide the Finance and Resources Committee with a summary of in-year performance to date.
KEY RECOMMENDATIONS/ DECISIONS:	Members are recommended to note the following updates: <ul style="list-style-type: none"> the facilities work that has taken place in this reporting period; the contract monitoring review; and the sustainability charts reporting on energy, water, gas and waste, noting that the latter has significantly decreased.
RISK	<ul style="list-style-type: none"> That essential estates work is not carried out on a timely basis impacting on the learner experience. That there is a failure to adhere to statutory and legislative health & safety requirements. That the College does not meet the decarbonisation target by 2040.
RELEVANT STRATEGIC AIMS:	<ul style="list-style-type: none"> The Student experience Sustainability/Growth & Innovation
SUMMARY OF REPORT:	<ul style="list-style-type: none"> There has been a variety of planned preventative maintenance that has taken place in this reporting period, alongside the initiation of some summer works in view for July and August 2025. An update on the College's service providers and their Red Amber Green (RAG) status and noting that some providers are being scrutinised on performance issues. The procurement process for college systems, including access control and fire has been completed. The new contractor is on site carrying out initial inspections of current system.

	<ul style="list-style-type: none"> • The charts being used for the College's energy consumption, solar PV generation, waste and water provide a visual representation usage. Key challenge is finding additional ways to offset our energy usage where possible, given the significant increase in energy costs. The College's Climate Change Action Team are supporting with this.
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1. INTRODUCTION

- 1.1 This paper updates members of in-year performance to date for the reporting quarter, April 2025 to June 2025.

2 FACILITIES WORKS

- 2.1 During the reporting period some alterations have been made. There has been a substantial amount of planned preventative maintenance, and some campus improvements carried out. Please see below for an overview:
- 2.1.1 Investigation into lift shaft issues by a structural engineer have been carried out. The College remains aware of the potential to request a share of the £2.5m Capital Emergency Funding via the Scottish Funding Council, should the repair costs be extensive. At the time of writing, this is unknown.
- 2.1.2 Replacement fire doors have been installed in LG74.
- 2.1.3 A new air conditioning system has been introduced into classrooms 130 – 134.
- 2.1.4 Fixed wire testing has been carried out by a qualified electrician.
- 2.1.5 The overflow carpark has been landscaped and trees cut back.
- 2.1.6 The nursery fence has been replaced after storm damage in January.
- 2.1.7 Two new water isolation points have been installed as part of ongoing flood prevention measures.
- 2.1.8 A faulty Firewatch panel has been replaced in Kitchen 243.
- 2.1.9 A Fire Risk Assessment has been carried out and actioned.
- 2.1.10 The cold-water storage tank has been cleaned out and serviced.
- 2.1.11 The Barber's salon in class 226 has undergone a full refurbishment
- 2.2 At the time of writing, the Facilities Team has successfully co-ordinated the summer works programme despite some absence within the team. The College recognises the level of hard work and dedication of the team in being able to deliver projects under challenging and time sensitive circumstances. Details of activities across July and August 2025 will be presented at the next Committee meeting.

3 CONTRACT MONITORING

- 3.1 As reported previously, high level / large volume maintenance and repairs continue to be contracted out to specialist businesses and are obtained via tendering process in collaboration with the College's APUC procurement professional. These items and contractors are shown in the table below alongside their RAG ratings.
- 3.2 Each contract review starts with a list of key objectives and identifies opportunities to improve, both in terms of the current contract itself, and in feeding into future contract negotiations, and key achievements. The review uses a scorecard format and will identify key improvement actions, with timescales and responsibilities stated. Any issues and risks identified will be raised with the supplier and a system of measuring and monitoring KPIs will be introduced. Examples of this would be:
- Shortages reported;
 - Deliveries missed or late;
 - Quality of service or goods;
 - Invoice accuracy; and
 - General customer satisfaction as reported by the end user.

3.3 The new contractor for fire, intruder and systems access has been on campus conducting site visits and carrying out PPM on the current system prior to handover in August. Any initial faults will be documented in their report and from this, we will task the contractor with carrying put the required remedials.

3.4 Table 1: Service Providers

RAG Rating		Expense - Supplier	Progress to Green: Key Actions
Last Quarter	This Quarter		
		Gas - Supply – Total Gas	N/A
		Gas - College Infrastructure – Dalkia	Dalkia has been in place for sufficient time to demonstrate effectiveness. Monitoring continues.
		Electricity – Supply – EDF	Monitor cost increases
		Electricity – Feed in Tariff – Scottish Power	No concerns
		Electricity – College Infrastructure –	Electrical contractor in place and operational
		Elevators - Kone, maintaining all five elevators	Excellent response times and experienced engineers.
		Mechanical & Ventilation – Dalkia	Dalkia is performing reasonably. This continues to be monitored.
		Kitchen equipment, including refrigeration units – NWCE	Contractor service proved to be inefficient. Contract ends in October 2025
		Water – Supply – Business Stream	N/A
		Water – College Infrastructure – Dalkia	Contractor will be monitored, and review meetings are planned. There has been improvement in service levels but will continue to monitor
		CCTV and associated systems	New contractor on campus carrying out initial assessment of current system. Performance will be monitored
		Security Systems (Alarms) – Connolly Security Services	Continued concerns being dealt with, rating remains static for now. Procurement process near completion.
		Fire Systems – Connolly Security Services (Fire Division)	Continued concerns being dealt with, rating remains static for now. Procurement process near completion.
		Pest Control – Environmental Services Pest Control Ltd	Good service provision and very reactive.

		Construction Machinery Maintenance – Inhouse and 'The Saw Centre'	Carried out internally and backed up by routine maintenance contractor services employed
		Waste & Recycling – Biffa	Service levels have improved to a satisfactory level. Contract review meetings in place. This contract is working very well.
		Ground's maintenance – IPSUM	Problems maintaining services levels. Another new manager is being appointed to alleviate current issues which will be monitored. If no improvement – re-tender.

4 SUSTAINABILITY

4.1 Table 2 Solar Panel Production

Reporting Period	Construction Wing	Annex	Low Carbon House	Total Kwh
Oct-Dec 2022	18022	3562	503	2,2087
Jan – Mar 2023	4080	638	142	4,860
Apr-Jun 2023	72,876	2,206 (F)	599	75,681
Jul-Sept 2023	65,793	2537	476	68,806
Oct-Dec 2023	13132	671	140	13,943
Jan – Mar 2024	17133	971	176	18,280
Apr-Jun 2024	63,661	3,996	504	68,161
Jul-Sept 2024	58,582	3,616	489	62,687
Oct-Dec 2024	12,994	627	134	13,755
Jan – Mar 2025	20,794	1310	233	22,337
Apr-Jun 2025	77625	5227	688	83,540

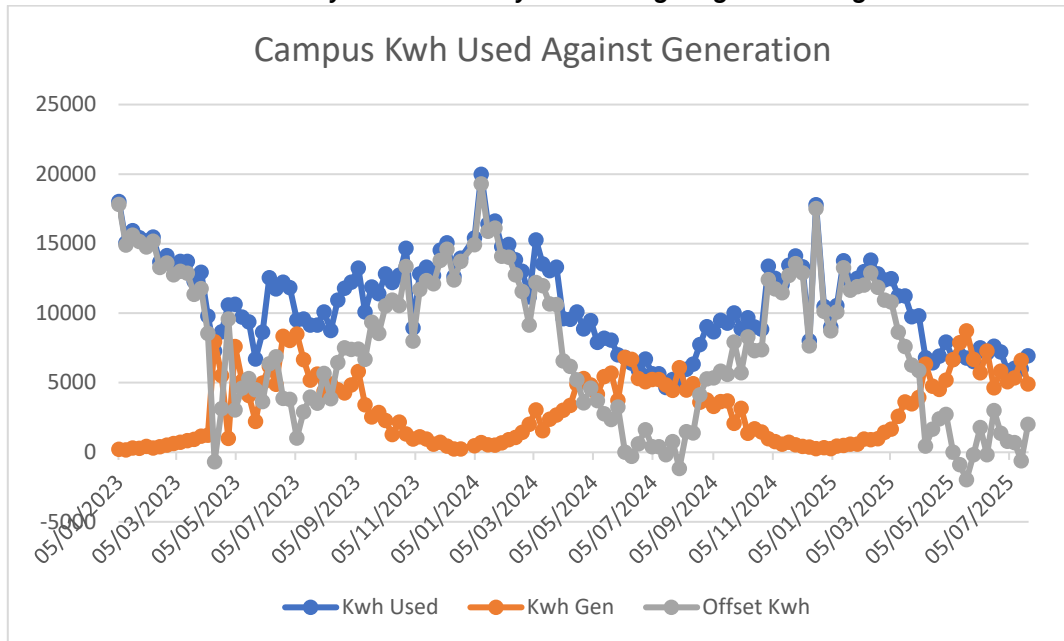
Note: Quarter year comparison is low due to a fault (F) with one of our arrays. This has been fixed; however, the output will not have reached its full potential. In Addition, the solar PV inverter in the Annexe had to be replaced June 2023.

4.2 The Solar Photovoltaics (PV) panel figures are as expected for this time of year, and this reporting period obviously sees an increase in generated hours due to the number of daylight hours and over the 3-year comparison, this year has the most yield. It is necessary that all systems on campus are cleaned regularly to keep performance at its maximum

4.3 The College has generated 919,008 Kwh to date. 18 cups of hot water use is 1.015Kwh, this equates to 16,297,679 cups of tea or coffee.

4.4 The graph below highlights the College's generated electricity from all PV sources against all energy used.

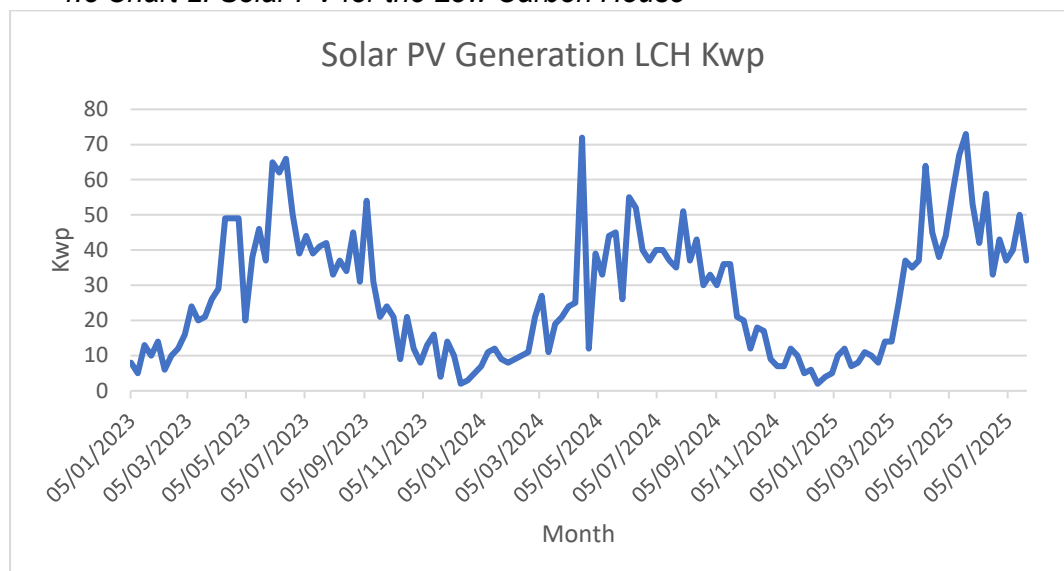
4.5 Chart 1 Electricity Generated by the College Against Usage



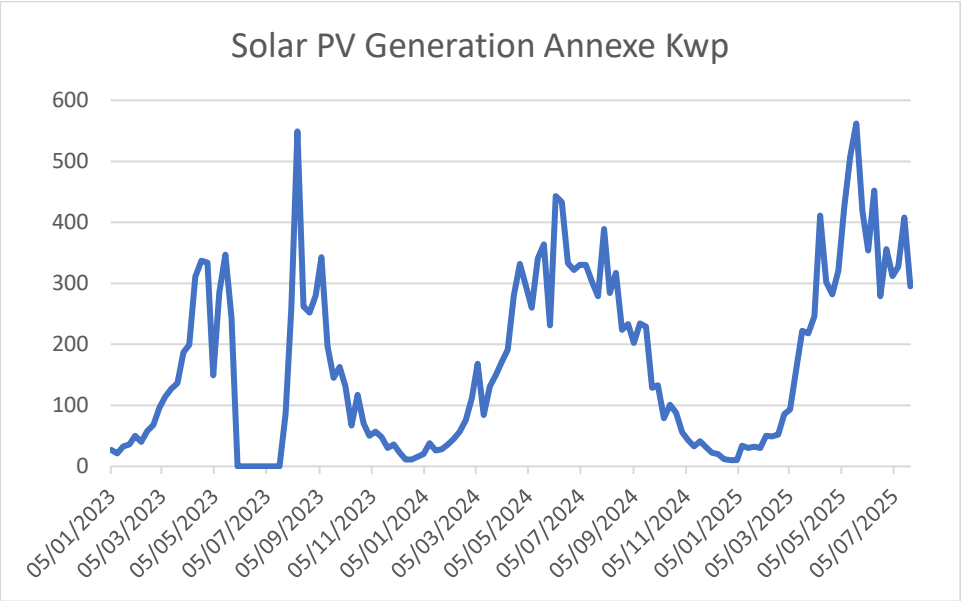
4.6 Measures are being investigated to further reduce all electricity consumption from centrally turning off computers and clever touch screens from our IT department and the newly appointed HVAC contractor (Dalkia) are in discussion with the facilities team to implement similar measures through the BMS system. This investigation is still under way and hope to have results for the next report update.

4.7 In addition, the Climate Change Action Team (CCAT), which is supporting with the implementation of the College's Climate Change Action Plan, will, on an on-going basis, consider this as part of its action plan.

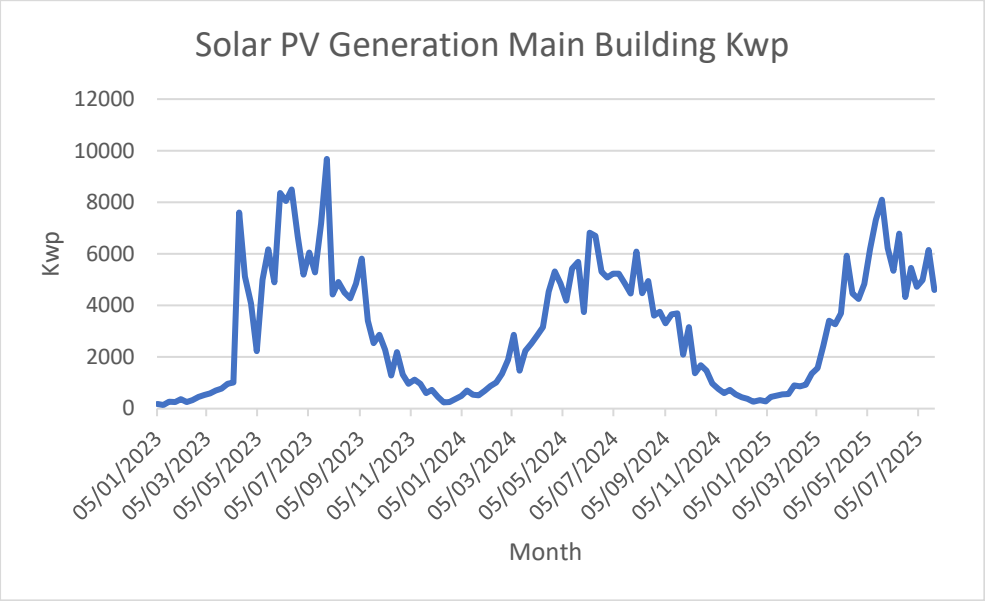
4.8 Chart 2: Solar PV for the Low Carbon House



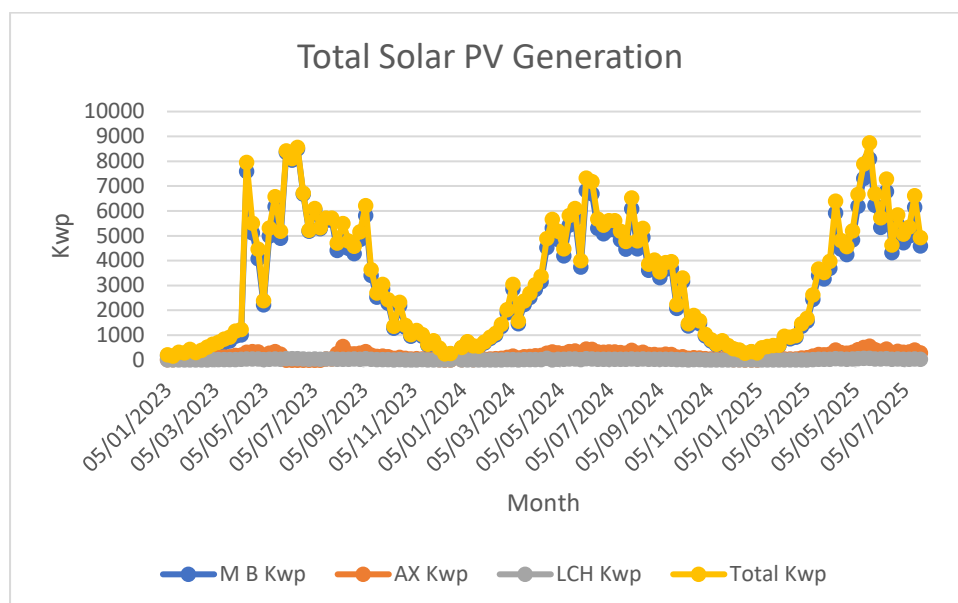
4.9 Chart 3: Solar PV for the Annex



4.10 Chart 4: Solar PV Figures Main Building



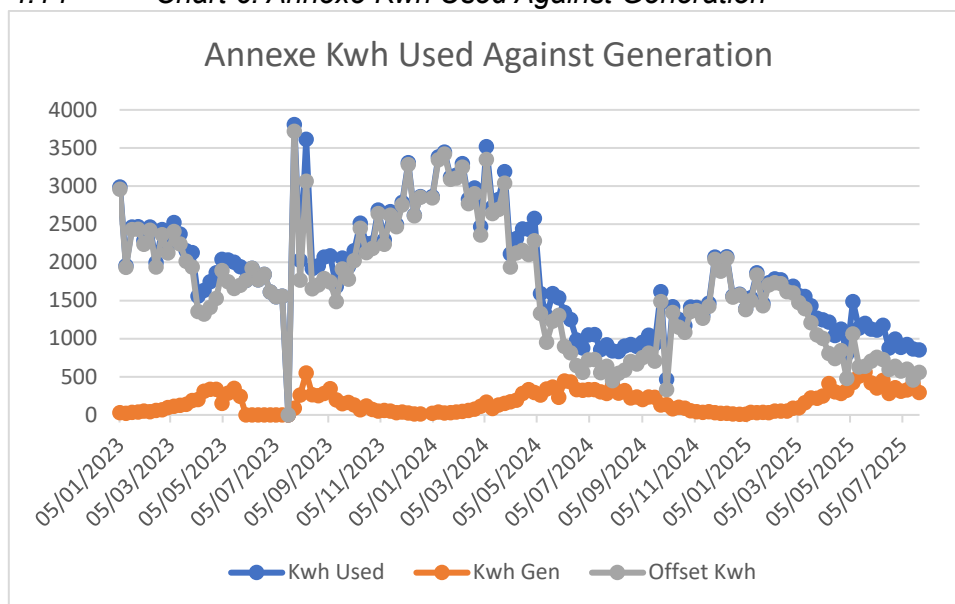
4.11 *Chart 5: Total Solar PV Figures Combined*



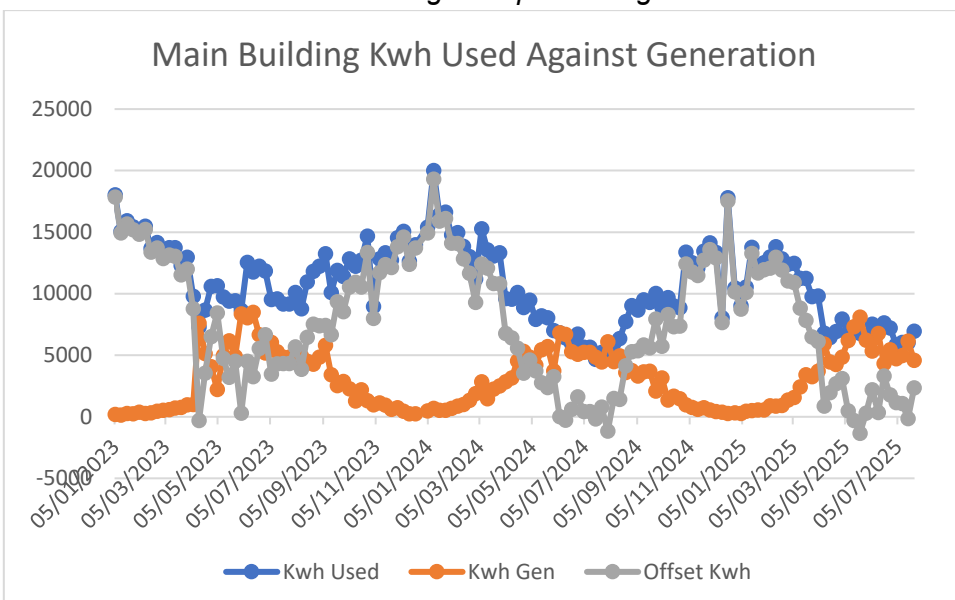
4.12 Charts 3 and 4 show how much of what the College has generated for the annex and the main building can be offset against what is actually used in these buildings. There is a natural reduction of solar power generated across the winter months as can be seen from this two-year trend.

4.13 As can be seen from the graphs, in the summer months the gap between used and generated become closer due to less energy needed for heating, lighting etc and more energy being generated. In addition, there are also fewer people in the building resulting in less usage. In contrast the gap widens again during the autumn and winter period, with usage being higher than what is generated from reduced daylight hours.

4.14 *Chart 6: Annexe Kwh Used Against Generation*



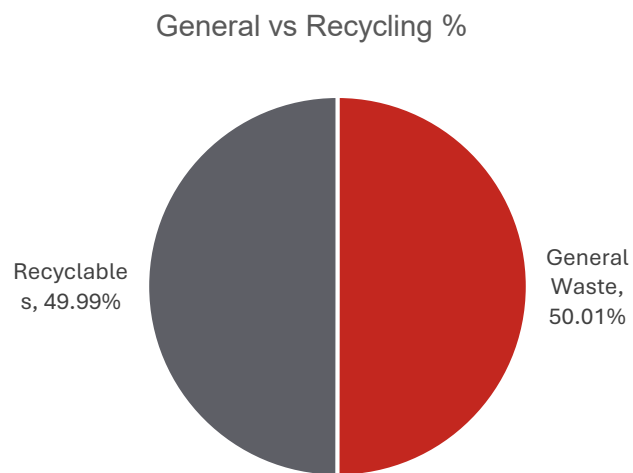
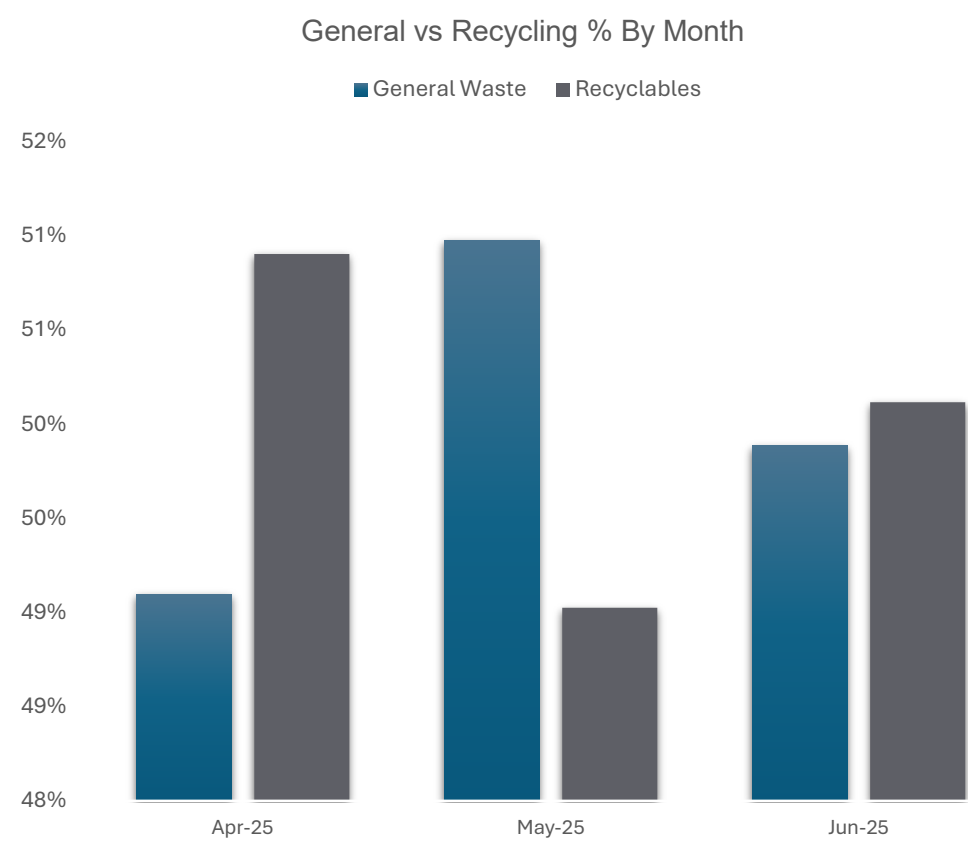
4.15 *Chart 7: Main Building Kwh/p Used Against Generation*



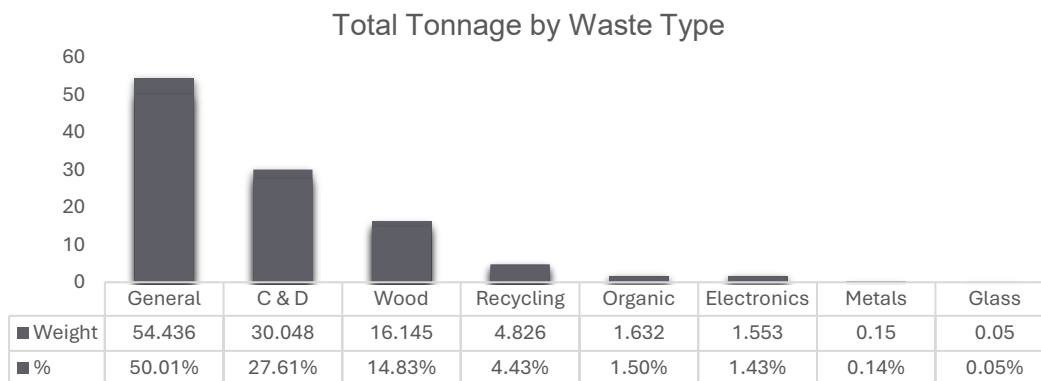
5 Waste

5.1 The graphs show in detail a breakdown of the waste categories from the College supplier Biffa. Note that the category “C&D” refers to “Mixed Construction and Demolition” waste. This has previously been reported and the CCAT Team are also involving the Student Association, [LAMH Recycle, a social enterprise, offering waste management and recycling services](#). Please note a new reporting system has been adopted by Biffa and better reflects the general waste to recyclable.

5.2 Chart 8: General V Recycling

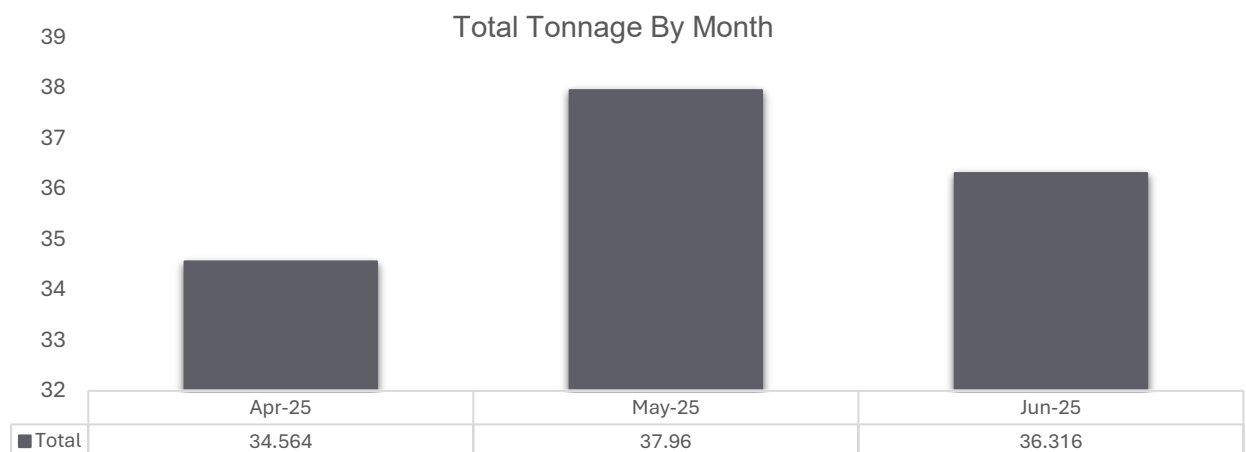


5.3 Chart 9: Total Tonnage by Waste Type



5.4 The general waste category has dropped significantly in this period. As reported at the previous committee meeting the CCAT team is supporting an action around the reduction of this and will continue to monitor.

5.5 Chart 10 Waste: Monthly Tonnage 2024



6 ENERGY CONSUMPTION: ALL BUILDINGS

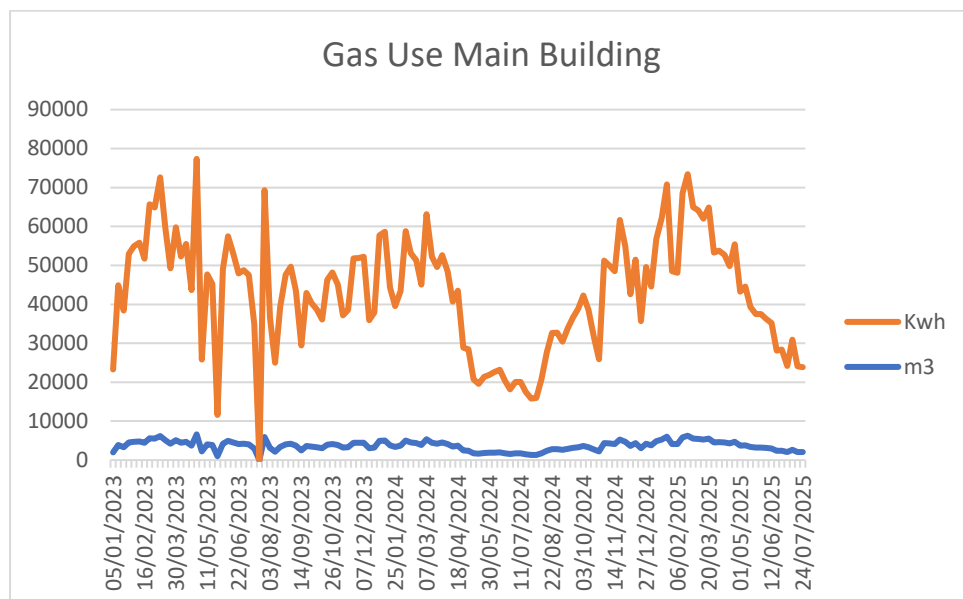
6.1 Table 3 below provides an overview of energy consumption across the estate over the last 3-year period, across all the utilities: gas, electricity and water. The change in the utilisation of the building will obviously affect the comparisons, but the table is designed to compare the movement in the quarter over the prior year equivalent, and the current rolling year over the prior year equivalent.

6.2 There are also charts to demonstrate the rolling gas and water consumption so that is easier to read in line with the electricity charts already provided.

6.3 Table 3 Energy Consumption

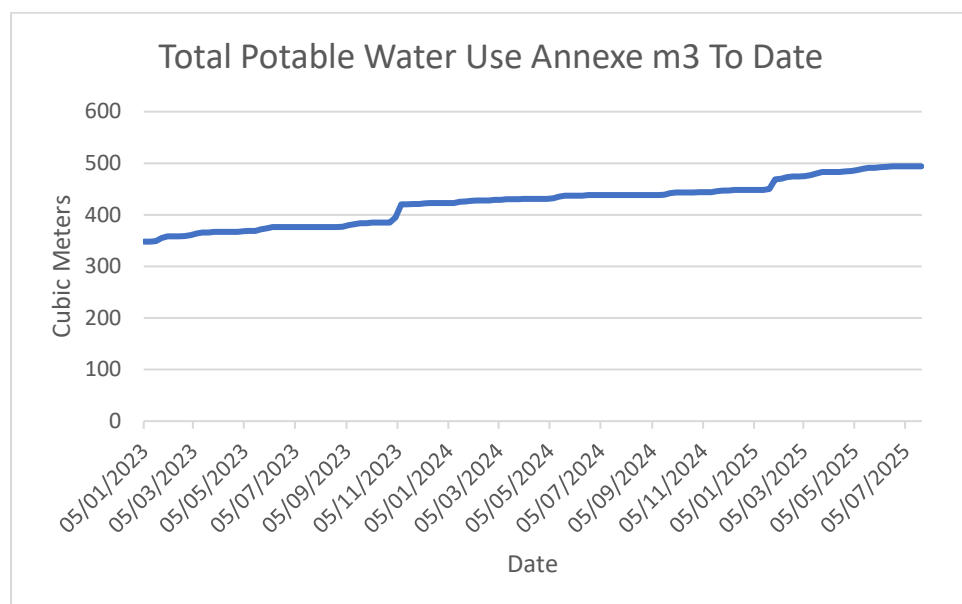
Finance and Resources Committee Estates Report August 2025 Energy Consumption- all Buildings				
Date	Usage in kWh	Movement over prior year quarter	Rolling Year	Movement over prior rolling year
Gas - kWh				
Apr - Jun 2021	330,348	127%	1,515,006	-1%
Jul - Sep 2021	205,185	-7%	1,500,089	0%
Oct-Dec 2021	249,945	-39%	1,341,156	-5%
Jan-Mar 2022	551,090	-1%	1,336,568	0%
Apr - June 2022	313,839	-5%	1,320,059	-13%
Jul - Sep 2022	200,677	-2%	1,315,551	-12%
Oct-Dec 2022	337,867	35%	1,403,473	5%
Jan - Mar 2023	634,676	15%	1,487,059	11%
Apr - June 2023	563,061	79%	1,736,281	32%
Jul - Sep 2023	463,028	131%	1,998,632	52%
Oct-Dec 2023	475,412	41%	2,136,177	52%
Jan - Mar 2024	612,293	-4%	2,113,794	42%
Apr - June 2024	327,719	-42%	1,878,452	8%
Jul - Sep 2024	352,300	-24%	1,767,724	-12%
Oct-Dec 2024	574,829	21%	1,867,141	-13%
Jan - Mar 2025	715,515	17%	1,970,363	-7%
Apr - June 2025	517,615	58%	2,160,259	15%
Electricity - kWh				
Apr - Jun 2021	368,153	63%	1,916,402	7%
Jul - Sep 2021	283,081	-5%	1,899,962	14%
Oct-Dec 2021	127,306	-73%	1,554,522	-1%
Jan-Mar 2022	193,702	-75%	972,242	-45%
Apr - June 2022	135,743	-63%	739,832	-61%
Jul - Sep 2022	135,201	-52%	591,952	-69%
Oct-Dec 2022	174,960	37%	639,606	-59%
Jan - Mar 2023	189,142	-2%	635,046	-35%
Apr - June 2023	209,549	54%	708,852	-4%
Jul - Sep 2023	137,941	2%	711,592	20%
Oct-Dec 2023	156,521	-11%	693,153	8%
Jan - Mar 2024	191,510	1%	695,521	10%
Apr - June 2024	104,669	-50%	590,641	-17%
Jul - Sep 2024	101,636	-26%	554,336	-22%
Oct-Dec 2024	160,652	3%	558,467	-19%
Jan - Mar 2025	154,890	-19%	521,847	-25%
Apr - June 2025	100,317	-4%	517,495	-12%
Water Consumption - M₃				
	Usage in m3	Movement over prior year quarter	Rolling Year	Movement over prior rolling year
Apr - Jun 2021	201	-68.0%	1,587	-79%
Oct-Dec 2021	1,665	50.1%	2,143	-49%
Jan-Mar 2022	2193	96.6	4,133	105%
Apr - June 2022	2,507	92.0	6,566	314%
Jul - Sep 2022	1,650	-0.9	8,015	274%
Oct-Dec 2022	2,178	-0.7	8,528	106%
Jan - Mar 2023	2479	-1.1	8,814	34%
Apr - June 2023	2,045	19.3	8,352	4%
Jul - Sep 2023	1,218	-78.8	7,920	-7%
Oct-Dec 2023	2,082	-19.1	7,824	-11%
Jan - Mar 2024	2,167	5.6	7,512	-10%
Apr - June 2024	1,551	21.5	7,018	-11%
Jul - Sep 2024	1,491	-39.6	7,291	-7%
Oct-Dec 2024	2,032	-6.6	7,241	-4%
Jan - Mar 2025	2,136	27.4	7,210	3%
Apr - June 2025	1,720	13.3	7,379	1%

Chart 11: Gas Use Main Building



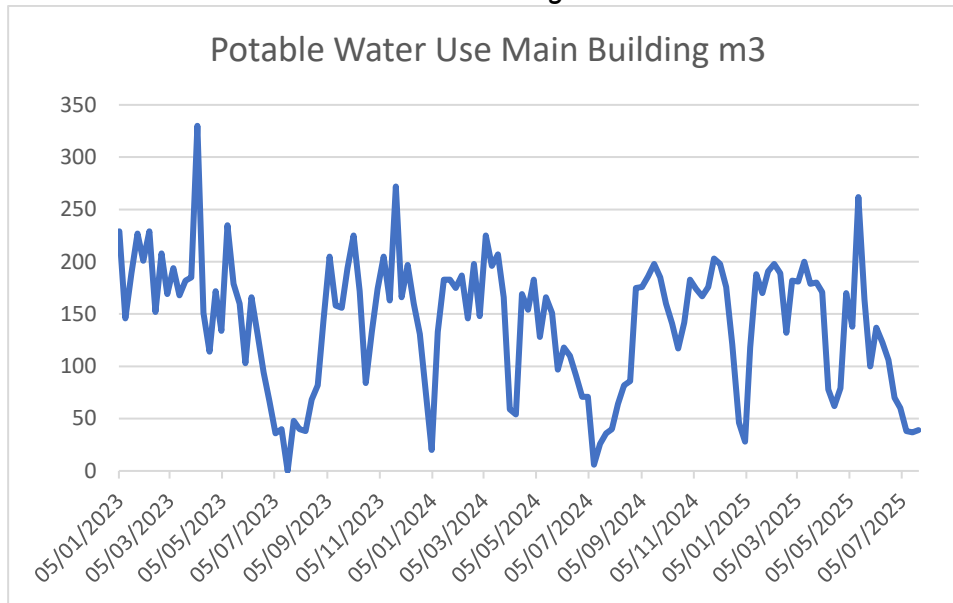
7.3 The ongoing challenge for the College will be to consider how it can reduce its energy consumption given the substantial rising costs in energy bills. This is where staff training is important when considering how to use energy efficiently within the College.

7.4 Chart 12: Potable Water use Annexe



7.5 The low water usage in the annex is due to all toilet flushing coming from the rainwater harvesting system. 444,000 litres is the total amount of water used since November 2015.

7.6 Chart 13: Potable Water use Main Building



7.7 Solutions to the reduction of potable water consumption continue to be considered as part of a wider capital expenditure programme are to introduce waterless urinals, water solenoid valves and replace taps with 2 litre flow restrictors.

8 RISK

- 8.1 Those essential estates work is not carried out on a timely basis impacting on the learner experience.
- 8.2 That there is a failure to adhere to statutory and legislative health & safety requirements.
- 8.3 That the College does not meet the decarbonisation target by 2040.

9 EQUALITIES

- 9.1 There are no new matters for people with protected characteristics or from areas of multiple deprivation which arise from consideration of the report.

10 RECOMMENDATIONS

- 10.1 Members are recommended to note the contents of this report including:
 - 10.1.1 the facilities work that has taken place in this reporting period;
 - 10.1.2 the contract monitoring review; and
 - 10.1.3 the sustainability charts reporting on energy, water, gas and waste, noting that the latter has significantly decreased.

FINANCE AND RESOURCES COMMITTEE

DATE	26 August 2025
TITLE OF REPORT	Quarterly Update: Climate Change Action Team (CCAT)
REFERENCE	05.5
AUTHOR AND CONTACT DETAILS	Wilma MacLeod, Head of Curriculum wilma.macleod@slc.ac.uk
PURPOSE:	To update members on the actions taken by the Climate Change Action Team (CCAT) in the last quarter.
KEY RECOMMENDATIONS/ DECISIONS:	Members are asked to note: <ul style="list-style-type: none"> the contents of the report; the on-going work across the College in supporting the delivery of 'net zero' targets; and the growing requirement on the College to provide sustainability reporting to various agencies.
RISK	<ul style="list-style-type: none"> That the College does not take appropriate action to reduce its carbon footprint. That staff and students are not educated and supported around climate change and the wider implications.
RELEVANT STRATEGIC AIM:	<ul style="list-style-type: none"> Growth and Innovation Sustainability
SUMMARY OF REPORT:	<ul style="list-style-type: none"> The Climate Change Leads and CCAT continue to lead efforts to address climate change across the College. Ten actions were identified during the reporting period, with five completed. Good practice is shared at Climate Change Action Team meetings and throughout the College Two bids for funding were submitted and one was successful. Partnership working remains ongoing. The College is awaiting the revised template for 2024-2025 the Public Body Climate Change Duties Report (PBCCDR) which must be submitted by 30 November 2025 The report acknowledges the prominence and growing importance of Scope 3 emissions as reported during the 2023-2024 PBCCDR exercise.

1. INTRODUCTION

- 1.1. This paper provides a quarterly update on the progress of the Climate Change Emergency Action Plan (CCEAP) and the College's overall commitment to sustainability as led by the CCAT.

2 BACKGROUND

- 2.1 As part of the South Lanarkshire Colleges response to net zero targets a CCAT was established to support the roll out the CCEAP.
- 2.1 The CCEAP is founded on the principles of the FE College roadmap to have a strategic sector wide approach to tackling the climate emergency.
- 2.2 The Climate Change Leads and CCAT continue to lead efforts to address climate change across the College promoting sustainable behaviours, sharing good practice and supporting climate change initiatives.

3 DISCUSSION

- 3.1 The CCEAP is monitored on a monthly basis by the CCAT to ensure its objectives are being met, progress is tracked effectively, and any necessary adjustments are made. This monitoring enables the College to evaluate its progress, maintain accountability and achieve its climate change goals. During the period May 2025 – June 2025, ten actions were identified, of these five were completed.

3.2 *Table 1 CCEAP Actions from May 2025 June 2025*

Roadmap Element	Action	Target Date	Progress
Leadership and Governance	Climate Change Risk Assessment to be updated	June 2025	Completed as part of the overall college risk assessment. This is an ongoing action and will be carried forward to AY 2025-2026
Leadership and Governance	Explore alternative sources of funding	June 2025	Two opportunities for alternative funding were identified of which one was successful. This is an ongoing action and will be carried forward to AY 2025-2026
Leadership and Governance	Embed sustainable behaviours through staff induction and development	June 2025	Not completed. Staff induction process is currently being reviewed.
Teaching and Learning	Engage and enhance sustainable behaviours	June 2025	Completed and good practice is shared across all areas. This

	withing learning and teaching		is an ongoing action and will be carried forward to AY 2025-2026
Teaching and Learning	Undertake a mapping exercise to identify where Sustainable Goals are embedded in the curriculum	June 2025	Not completed. This will be carried forward to AY 2025-2026
Estates and Operations	Review the installation of Building Management System	June 2025	Update currently being installed
Estates and Operations	Complete and submit Heatworks: Building Assessment report to Local Authority	June 2025	Not completed. This will be carried forward to AY 2025-2026
Estates and Operations	Published a revised estates strategy	June 2025	Not completed. A review of the college estate if planned for AY 2025-2026
Estates and Operations	Complete the SFC Baseline Survey for the sector wide estates/infrastructure policy.	June 2025	Completed
Data Collection	Convert data energy usage information to Power BI system.	June 2025	Not completed. Live data is available; this has still to be converted to Power BI

3.3 A bid was submitted to the Scottish Government to the Climate Engagement Fund (CEF) to support activities addressing the climate emergency across Scotland. While the application was not successful on this occasion, the process has helped strengthen future proposals and identify new opportunities for engagement.

3.4 Nevertheless, the College was successful this quarter in securing 50% funding for the delivery of Heat Pump training (£42,600) via CEF, with onboarding businesses supporting the residual 50% funding stream. This is a much-welcomed revenue stream which not only supports the College in contributing towards a more sustainable economy but services a national key priority to tackle the climate emergency through provision of training and skills.

3.5 An environmental sustainability audit by Henderson and Loggie is due to take place week beginning 8 September 2025

4 PUBLIC BODY CLIMATE CHANGE DUTIES REPORT (PBCCDR)

- 4.1 The Scottish Government has identified a preferred bidder to manage the PBCCDR contract, to replace Scottish Sustainable Network (SSN). However, the contract has not yet been awarded. The College has been advised to continue using the current template as a working document, but the final submission will require to be completed using the new contractor's documentation. Despite the ongoing delay, the compliance deadline is a statutory requirement and therefore cannot be changed.
- 4.2 The response to the Travelknowhow staff survey was disappointing. The survey will be repeated on Staff Development Day on 13 August 2025, and the data collected will be used to inform Scope 3 emissions. This will be reported at the next Committee meeting.
- 4.3 In June 2025, the College received a letter from the Cabinet Secretary for Net Zero and Carbon, Gillian Martin MSP, acknowledging the completion of the Public Body Climate Change Duties Report for 2023/24. (Annex A) The PBCCD reports gathered showed that public bodies continue to face challenges in decarbonising their operations but continue to expand their reporting on indirect emissions, particularly procurement, as well as reporting on adaptation. This aligns to the College's ambition to improve data collation for Scope 3 emissions during the Staff Development Day. The Analysis Report is available on the Sustainable Scotland Network (SSN) [website](#).

5 CURRICULUM HIGHLIGHTS

- 5.1 James Jamieson, Depute Head of Curriculum and Graham Paterson, Curriculum and Quality Manager Built Environment and Renewable Technologies attended a Parliamentary Reception hosted by Willie Rennie MSP to showcase the college eco-friendly training programmes in renewable energy. These included the Mobile Heat Training facility and Heat Pump technology courses.
- 5.2 Horticulture students from NC Level 5, Life Options, and schools' programmes collaborated, to achieve a Gold Award in the Horticultural Craft Challenge, presented by the Incorporation of Gardener's, Glasgow, at the Trades Hall. Their garden was proudly showcased at the Scottish Garden Festival, held at Hamilton Town Hall and highlighted sustainable horticultural practices.

6 EQUALITIES

- 6.1 There are no new matters for people with protected characteristics or from areas of multiple deprivation which arise from consideration of the report.

7 RECOMMENDATIONS

- 7.1 Members are asked to:

- 7.1.1 note that five of the actions of the Climate Change Emergency Action Plan have been completed;
- 7.1.2 note the success in securing 50% funding for the deliver of Heat Pump Training via the Climate Change Engagement Fund.

ANNEX A: LETTER FROM CABINET SECRETARY FOR NET ZERO & CARBON, GILLIAN MARTIN MSP

Cabinet Secretary for Net Zero and Energy Gillian Martin MSP

T: 0300 244 4000

E: scottish.ministers@gov.scot

Council Leaders and Chief Executives

Chairs and Chief Executives of Public Bodies

University and College Chairs and Principals

Regional Transport Partnerships Chairs and Leads

June 2025

PUBLIC BODIES' CLIMATE CHANGE DUTIES

As the Leaders, Chairs, Principals and Chief Executives of the Scottish public sector, I wish to thank you all for your continuing commitment and achievement in contributing to Scotland's national progress on climate change.

Scotland is halfway to achieving net zero emissions, and Scottish Ministers have an unwavering commitment to a just transition to net zero by 2045. Your leadership of Scotland's public sector will be crucial to achieving this aim and ensuring that Scotland is resilient to the future impacts of climate change.

I hope you will have the opportunity to attend the Sustainable Scotland Network's (SSN) Annual Conference on 11 June. This year's Conference focuses on collaboration for new and innovative ways of addressing climate change – vital if we are to achieve a just transition to net zero and a climate resilient, well-adapted Scotland.

I want to take this opportunity to stress the importance of public bodies' climate change reporting duties which are a vital tool for measuring and monitoring progress across the public sector towards net zero and effective adaptation action. The recently published 2023-24 Analysis Report prepared by SSN shows that all public bodies required to report did so and I would like to thank you again for your commitment to the reporting system.

The reports show public bodies face challenges in decarbonising their operations but continue to expand their reporting on indirect emissions, particularly procurement, and also reporting on adaptation. I was very pleased to see the diverse range of projects carried out over the reporting year.

The Analysis Report is available on the SSN [website](#).

I am also pleased to provide an update on progress on one of the recommendations from Environmental Standards Scotland (ESS) investigation [IESS.21.012](#) into climate change delivery. This recommendation focused on the need for a monitoring body to have the remit

to scrutinise the system of climate change duties, and with the requisite powers to direct action where deemed necessary.

We intend that ESS itself take on this monitoring function, using existing powers granted by the UK Withdrawal from the European Union (Continuity) (Scotland) Act 2021. Whilst planning is at an early stage, ESS will be gearing up to go live in 2026-27 and intends reaching out separately to relevant stakeholders in respect of its role.

Once again, I am extremely grateful for the work you have all achieved to date.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Gillian Martin', with a stylized, flowing script.

GILLIAN MARTIN

FINANCE & RESOURCES COMMITTEE

DATE	26 August 2025
TITLE OF REPORT	Finance & Resources Workplan for the Committee
REFERENCE	05.6
AUTHOR AND CONTACT DETAILS	Elaine McKechnie (VP – Finance, Resources & Sustainability) Elaine.mckechnie@slc.ac.uk
PURPOSE:	To review the workplan of the Finance & Resources Committee as across 2025-26
KEY RECOMMENDATIONS/ DECISIONS:	<p>Members are recommended to:</p> <ul style="list-style-type: none"> • review the workplan and ensure it is complete; • agree to similar timeframes for scheduling of work for 2025/26 as in 2024/25, such as • note that the review and approval of the 3-year financial forecast return to the Scottish Funding Council to be considered in August/September retrospectively owing to time constraints at budget setting stage (previously noted as a May/June deliverable); • note that the remit of the Finance & Resource Committee is prepared and agreed every two years. As it was approved in August 2024, there is no requirement for this again in August 2025. • note that the work plan no longer contains references to regional or consolidated tasks following dissolution of the Lanarkshire region on 30 July 2025; and • Instruct College management to arrange for the appropriate supporting documents to be available according to the timetable.
RISK	<ul style="list-style-type: none"> • That there is a failure of financial controls • That there is a failure of Corporate Governance arrangements • That there is a reputational risk to the College.
RELEVANT STRATEGIC AIM:	<ul style="list-style-type: none"> • The Student Experience • Culture and People Development • Growth and Innovation • Sustainability
EQUALITIES	<ul style="list-style-type: none"> • There are no new matters for people with protected characteristics or from areas of multiple deprivation which arise from consideration of the report.
SUMMARY OF REPORT:	<ul style="list-style-type: none"> • The workplan is a suggested timetable for the year, incorporating formal requirements which the Committee is invited to consider. It is included as appendix 05.6b to this summary. • The Committee is asked to note the following: <ul style="list-style-type: none"> a) The review and approval of the 3-year financial forecast return to the Scottish Funding Council is

	<p>considered in August/September retrospectively owing to time constraints at budget setting stage (previously noted as a May/June deliverable).</p> <p>b) The remit of the Finance & Resources Committee is prepared and agreed every two years. As it was approved in August 2024, there is no requirement for this again in August 2025.</p> <p>c) The work plan no longer contains references to regional or consolidated tasks following dissolution of the Lanarkshire region on 30 July 2025, allowing the College to report its own affairs without a formal need for any regional scrutiny.</p>
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Appendix 05.6b Finance & Resources Workplan for 2025-26

1. INTRODUCTION

- 1.1. This paper provides an overview of the intended Finance & Resources Committee work plan for 2025-26.

2. BACKGROUND

- 2.1 The College needs a Finance & Resources Committee work plan annually to ensure the College operates efficiently, sustainably, and in alignment with its strategic goals. Specifically:

- 2.1.1 It forms part of the College's Strategic Financial Management processes, allowing the Committee to review budget planning, cost control and forecasting;
- 2.1.2 It allows the Committee oversight of resource allocation and optimisation; giving the Committee the opportunity to examine staffing plans, facilities and estates related matters as well as the extent of digital infrastructure within the Campus;
- 2.1.3 It supports the Committee in gaining a broader understanding of governance within the College, by monitoring performance and ensuring regulatory compliance; and
- 2.1.4 It helps ensure that the College is operating in alignment with Strategic aims.

3 THE WORK PLAN

- 3.1 The Work plan is contained in appendix 05.6(b).

- 3.2 The Committee is specifically asked to note:

- 3.2.1 The review and approval of the 3-year financial forecast return to the Scottish Funding Council is considered in August/September retrospectively owing to time constraints at budget setting stage (previously noted as a May/June deliverable).
- 3.2.2 The remit of the Finance & Resource Committee is prepared and agreed every two years. As it was approved in August 2024, there is no requirement for this again in August 2025.
- 3.2.3 The work plan no longer contains references to regional or consolidated tasks following dissolution of the Lanarkshire region on 30 July 2025.

4 EQUALITIES

- 4.1 There are no new matters for people with protected characteristics or from areas of multiple deprivation which arise from consideration of the report.

5 RISK AND ASSURANCE

- 5.1 The Main risks are that

- 5.1.1 there is a failure of financial controls,
- 5.1.2 there is a failure of Corporate Governance arrangements; and
- 5.1.3 that there is a reputational risk to the College.

6 RECOMMENDATIONS

- 6.1 Members are recommended to:

- 6.1.1 review the workplan and ensure it is complete;
- 6.1.2 agree to similar timeframes for scheduling of work for 2025/26 as in 2024/25, such as
- 6.1.3 note that the review and approval of the 3-year financial forecast return to the Scottish Funding Council to be considered in August/September retrospectively owing to time constraints at budget setting stage (previously noted as a May/June deliverable);
- 6.1.4 note that the remit of the Finance & Resource Committee is prepared and agreed every two years. As it was approved in August 2024, there is no requirement for this again in August 2025.
- 6.1.5 note that the work plan no longer contains references to regional or consolidated tasks following dissolution of the Lanarkshire region on 30 July 2025; and
- 6.1.6 Instruct College management to arrange for the appropriate supporting documents to be available according to the timetable.

FINANCE AND RESOURCES COMMITTEE

DATE	26 August 2025
TITLE OF REPORT	Subsidy Control Act 2022: Minimal Financial Assistance considerations
REFERENCE	05.8
AUTHOR AND CONTACT DETAILS	Elaine McKechnie – Vice Principal, Finance, Resources & Sustainability Elaine.McKechnie@slc.ac.uk
PURPOSE:	To present an overview of Minimal Financial Assistance (MFA) requirements under the Subsidy Control Act 2022 and to include a tracker of all assistance given to businesses over the last 3 years, paying particular attention to businesses supported via recent UKRI CLIC funding and formerly Flexible Workforce Development Funding (FWDF).
KEY RECOMMENDATIONS/ DECISIONS:	Members are asked to: <ul style="list-style-type: none"> • note the content of the report; and • take assurances from the College that it will continue to monitor MFA to ensure thresholds are not breached.
RISK	Failure to adhere to the requirements of MFA under the Subsidy Control Act 2022 puts the College at risk of: <ul style="list-style-type: none"> • Non-compliance, potentially leading a recovery of CLIC funds that have been used to service business needs; • Enhanced reporting if thresholds are breached, requiring the College to undertake a subsidy control assessment against the principles in the Act and consider possible transparency obligations, such as reporting on the UK Subsidy Database; and • Reputational damage through failure to adhere to the requirements of the Act.
RELEVANT STRATEGIC AIM:	<ul style="list-style-type: none"> • The Student Experience • People Development & Culture • Growth and Innovation • Sustainability
SUMMARY OF REPORT:	<ul style="list-style-type: none"> • Under the Subsidy Control Act 2022, Minimal Financial Assistance (MFA) is a streamlined way for public authorities in the UK to award low-value subsidies without needing to comply with the full set of subsidy control requirements. • Where a subsidy confers an economic advantage on a business or enterprise, it is subject to MFA considerations under the Act. The Act allows public authorities to give subsidies up to £315,000 to an enterprise over a rolling three-year fiscal period

	<p>However subsidies given under MFA are largely exempt from substantive requirements of the Act.</p> <ul style="list-style-type: none">• The College has prepared a draft MFA tracker for the preceding 3 rolling years and commits to continually update it for future engagement activities.•
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1 INTRODUCTION

- 1.1 This paper provides an overview of Minimal Financial Assistance (MFA) requirements under the Subsidy Control Act 2022 and includes a tracker of all assistance given to businesses free of charge over the last 3 years, paying particular attention to businesses supported via CLIC funding.

2. SUBSIDY CONTROL ACT 2022

- 2.1 The UK's Subsidy Control Bill received Royal Assent on 28 April 2022, becoming the Subsidy Control Act 2022 (the "Act"). The new regime came fully into force on 4 January 2023.
- 2.2 Following the end of the Brexit transition period on 31 December 2020, the UK ceased to be subject to the EU's state aid regime. Instead, the UK has been subject to the subsidy control commitments set out in the UK-EU Trade and Cooperation Agreement ("TCA"), Northern Ireland Protocol, international free trade agreements with third countries and the WTO subsidy rules
- 2.3 Under the Subsidy Control Act 2022, Minimal Financial Assistance (MFA) is a streamlined way for public authorities in the UK to award low-value subsidies without needing to comply with the full set of subsidy control requirements. The Act sets out the framework to be followed when assessing the grant of a subsidy
- 2.4 Not all financial assistance granted by public authorities, or using public resources, will be a subsidy but where it confers an economic advantage on a business or enterprise, it is subject to MFA considerations under the Act.
- 2.5 The Act allows public authorities to give subsidies up to £315,000 to an enterprise over a rolling three-year fiscal period:
 - 2.5.1 The current financial year (from 1 April); and
 - 2.5.2 the two preceding financial years.
- 2.6 The subsidy rules exist to reduce the potential of distortive effects on competition and/or investment. However, subsidies given under MFA are largely exempt from most of the substantive requirements of the Act. This means that:
 - 2.6.1 no assessment against the Subsidy Control Principles or Energy & Environment Principles is required;
 - 2.6.2 most of the prohibitions and other conditions need not be considered, unless in relation to goods for export performance and prohibitions on domestic content.
 - 2.6.3 the transparency obligations do not apply if the subsidy is £100,000 or less but they do apply if the subsidy exceeds this amount.
- 2.7 Further details can be found in the [Statutory guidance for the United Kingdom subsidy control regime, Subsidy Control Act 2022](#) at page 97 -104.

3. THE 'ACT': MFA RELEVANCE TO COLLEGE SECTOR

3.1 MFA potentially interacts with the College sector in two ways:

- 3.1.1 As recipients: If a college receives public support for commercial activities (e.g., enterprise hubs or consultancy), MFA rules may apply.
- 3.1.2 As grantors: a college administers small business support schemes (e.g., startup grants, UKRI CLIC funding), they must follow MFA procedures.

3.2 It is acknowledged that UKRI CLIC funding has been used by the College to support local businesses with sustainable development. As funding has been used to support those business engagements, local business and enterprises have benefited from College expertise and resources at a fully subsidised rate (free of charge). A tracker has been prepared to include the estimated resource and staff costs in servicing such agreements with businesses in order to ensure that the College does not breach the £315,000 threshold.

3.3 Similarly, the previous Flexible Workforce Development Fund (FWDF) enabled many businesses and other stakeholders to access training at the College on a fully funded basis. While the Flexible Workforce Development Fund (FWDF) stopped for the academic years 2023/24, 2024/25, and 2025/26, it was in operation in 2022/23 and therefore forms part of the College's assessment of activity over the previous rolling three-year fiscal period.

4. PRACTICALITIES OF ADMINISTERING MFA UNDER THE ACT

4.1 The College continues to update its documentation to reflect MFA exemptions have been used to support business engagement over the last three-year rolling period. The College must track all subsidies received and granted in the interests of transparency and full accuracy. Currently the College believes that it is working within the MFA threshold exemptions.

4.2 As a grantor, the College must issue a written MFA notification to each business, stating the gross value of the subsidy that is being given under MFA rules and ensuring awareness that the level of engagement and support provided by the College will not exceed the £315,000 threshold.

4.3 The business/enterprise in receipt of any subsidy must confirm in writing that it also remains within the threshold before receiving the subsidy. Additional MFA cannot be given to a beneficiary that has already reached their MFA threshold.

4.4 The College commits to including information on Subsidy Control Act 2022 requirements and MFA exemptions in the formation of any further or new business engagements. In seeking to keep the administrative burden to a minimum, public authorities are encouraged to use email and automated on-line processes wherever possible and by using forms including tick-boxes where appropriate.

4.5 Appendix 05.b contains a draft MFA tracker of all activity over the last rolling three-year fiscal period and will be continually refined as new business engagements present.

5. RISKS AND ASSURANCES

5.1 Failure to adhere to the requirements of MFA under the Subsidy Control Act 2022 puts the College at risk of:

- 5.1.1 Non-compliance, potentially leading a recovery of CLIC funds that have been used to service business needs;
- 5.1.2 Enhanced reporting if thresholds are breached, requiring the College to undertake a subsidy control assessment against the principles in the Act and consider possible transparency obligations, such as reporting on the UK Subsidy Database; and
- 5.1.3 Reputational damage through failure to adhere to the requirements of the Act.

6. EQUALITIES

6.1 There are no new matters for people with protected characteristics or from areas of multiple deprivation which arise from consideration of the report. MFA is designed to reduce bureaucracy for small-scale support.

7. RECOMMENDATIONS

7.1 Members are asked to:

- 7.1.1 note the content of the report; and
- 7.1.2 take assurances from the College that it will continue to monitor MFA to ensure thresholds are not breached.

Appendix 05.8b: SLC MFA Tracker

FINANCE AND RESOURCES COMMITTEE

DATE	26 August 2025
TITLE OF REPORT	Principal and Exec Team Expenses 2024-25
REFERENCE	05.9
AUTHOR AND CONTACT DETAILS	Paddy Feechan, Head of Finance paddy.feechan@slc.ac.uk
PURPOSE:	To present the schedule of costs incurred in respect of Principal and Exec Team Expenses in the Financial Year.
KEY RECOMMENDATIONS/ DECISIONS:	Members are asked to: <ul style="list-style-type: none"> • note the level of expenditure.
RISK	<ul style="list-style-type: none"> • That funds are misused impacting on financial sustainability and ultimately the provision of high-quality education and support to its students; and. • Reputational risks to the College from the misuse of public funds, and the negative publicity this may bring.
RELEVANT STRATEGIC AIM:	<ul style="list-style-type: none"> • The Student Experience • People Development & Culture • Sustainability
SUMMARY OF REPORT:	<ul style="list-style-type: none"> • The report schedules out the Expenses incurred by each member, in Table 1, totalling £700.60, • While not mandated, the report includes training undertaken by the Executive to allow oversight by the Board of Management, ensuring appropriate fit with the Colleges strategic aims

1. INTRODUCTION

- 1.1 The purpose of this paper is to schedule out the expenses incurred by the Principal and the Exec Team for the financial year to 31 July 2025. The Exec Team at the college are the Vice Principal – Finance, Resources and Sustainability, the Vice Principal – Learning, Teaching and the Student Experience and the Vice Principal – Student Experience and Innovation.
- 1.2 As a publicly funded organisation, the College is accountable to the Scottish Government and the Scottish Funding Council. The remuneration and expenses of the Principal and executive team are included in the annual report to serve the following key purposes:
- 1.2.1 Public scrutiny: Taxpayer money helps fund the College and so it is essential that the Board of Management and public can see how senior leaders are using public funds.
 - 1.2.2 Governance standards: It aligns with best practices in corporate governance, ensuring decisions around pay are visible and justifiable.
 - 1.2.3 Strategic oversight: A review of expenditure by the Board of Management ensures that the College executive team is utilising funds to serve the strategic aims of the College.
- 1.3 The College recognises that training does not form part of incidental expenses however in the interests of transparency and in order to give the Board of Management oversight of all Executive team expenditure, it has been included in this report.
- 1.4 The College reminds the Board of Management that internal processes exist to ensure Executive team expenditure is verified by the independent Head of Finance, to ensure an impartial review of intended purchases. This annual report to the Board of Management allows for oversight and scrutiny of expenditure in relation to the fit with the College's strategic aims.

2. EXPENDITURE

- 2.1 The Principal and the Exec Team for the Financial Year have incurred a total of £700.60 of work-related expenditure.

2.2 Table 1: Expenses incurred to date.

	Period	Type of expenditure	Type of expenditure	Total expense incurred - £
Principal	1 Aug 2024 – 31 Jul 2025	Taxi fares	Business Travel	100.60
		Colleges Development Network	Online Leadership Training	75.00
Vice Principal – Finance, Resources and Sustainability	1 Aug 2024 – 31 Jul 2025	Colleges Development Network	Online Leadership Training	75.00
			Media Training	300.00
Vice Principal – Learning, Teaching & The Student Experience	1 Aug 2024 – 14 Mar 2025	-	-	-
Vice Principal – Student Experience and Innovation	9 Jun 2025- 31 Jul 2025	Colleges Development Network	In Person Training	150.00.XX
TOTAL				700.60

2.3 The Training courses procured for the Executive Team in 2024-25 are in relation to the below:

2.3.1 College Development Network: “Political Engagement Masterclasses for College Leaders” : A 90-minute session exploring theory and live examples of effective political engagement, with a focus on devolved institutions. This session is ideal for leaders seeking actionable insights that can be applied immediately (16 September 2025).

2.3.2 College Development Network; Media Training for Vice Principal – Finance, Resources & Sustainability. Media training session to prepare individuals for effective interactions with media outlets, enhancing their ability to convey messages clearly and confidently (25 March 2025). Due to illness, the Vice Principal could not attend this session but has expressed interest in undertaking the next training session across 2025-26.

3. RISKS AND ASSURANCES

3.1 The main risks are:

- 3.1.1 Going concern; that the College Executive Team are misusing funds impacting on financial sustainability and ultimately the provision of high quality education and support to its students; and
- 3.1.2 Reputational risks to the College from the misuse of public funds, and the negative publicity this may bring.

4. EQUALITIES

- 4.1 There are no new matters for people with protected characteristics or from areas of multiple deprivation which arise from consideration of the report.

5. RECOMMENDATIONS

- 5.1 Members are asked to:

- 5.1.1 note the level of expenditure.

FINANCE & RESOURCES COMMITTEE

DATE	26 August 2025
TITLE OF REPORT	Consideration of the annual Accounts Direction Guidance issued by SFC
REFERENCE	05.10
AUTHOR AND CONTACT DETAILS	Paddy Feechan, Head of Finance paddy.feechan@slc.ac.uk
PURPOSE:	To update Board and Committees on annual Accounts Direction guidance, identifying any amendments in approach for the purposes of 2024-25 Financial Statements.
KEY RECOMMENDATIONS/ DECISIONS:	Members are asked to: <ul style="list-style-type: none"> • Note no significant changes in Accounts Direction guidance for 2024-25 Financial Statements production. • Note the contents of this report and the attachment in relation to the annual Financial Statements that will be produced for 2024-25.
RISK	<ul style="list-style-type: none"> • Risk of non-compliance with statutory and legal obligations by Board and Committees to ensure good corporate governance and accurate financial reporting.
RELEVANT STRATEGIC AIM:	<ul style="list-style-type: none"> • The Student Experience • Sustainability
SUMMARY OF REPORT:	<p>There are no significant changes to the requirements contained in the Accounts Direction issued by SFC.</p> <p>There are 4 noted changes for 2025 from the SFC, which are detailed in the report.</p> <p>The document has been included as a hyperlink for the information of members.</p>

1. INTRODUCTION

- 1.1. This paper provides a brief outline of annual Accounts Direction guidance as issued by the Scottish Funding Council (SFC) on 14 August 2025.

2 BACKGROUND

- 2.1 Institutions must comply with the accounts direction in the preparation of their annual report and accounts in accordance with the Financial Memorandum with the Scottish Funding Council (SFC).
- 2.2 The Scottish Funding Council set out specific, mandatory disclosures for incorporated Colleges annually and these should be considered internally by the College prior to Financial Statements preparation to ensure full compliance.
- 2.3 Moreover, Audit Scotland seeks to promote high-quality financial reporting in Scottish public bodies. Audit Scotland's Professional Support carries out reviews of the annual accounts of public bodies to identify and share examples of good practice reporting and highlight areas where enhancements can be made. These enhancements should be considered within the context of accounting disclosures and so it is pertinent that both are considered together within this report.

3 CHANGES FOR 2024-25

- 3.1 In terms of the [Accounts Direction for Scotland's Colleges 2024-25](#), no significant changes have been noted since last year.
- 3.2 The SFC have however highlighted 4 areas of change for 2025, namely:
- 3.2.1 Institutions are reminded of the importance of complying with the Scottish Government's Fair Work reporting requirements.
 - 3.2.2 An additional disclosure has been added the Financial Reporting Manual relating to the McCloud remedy.
 - 3.2.3 Removal of wording included in the 2023-24 direction regarding the exceptional delay in calculation of pension data.
 - 3.2.4 It has been signposted that although 'Task Force on Climate-related Financial Disclosures' are not required for 2024-25, this will be revisited for 2025-26.

4 DEADLINES

- 4.1 The SFC require colleges to provide them with their annual report and account, together with the associated annual audit reports by 31 December 2025.
- 4.2 The annual report and accounts should be prepared with a 31 July year-end.

5 FUTURE OF THE SORP

- 5.1 The Financial Reporting Council has concluded its consultation on amendments to FRS102. The most consequential amendments relate to Leases, and how they are incorporated into FRS102.

5.2 The forthcoming SORP will be based on new FRS102. This will have an effective date 1 January 2026 and will therefore be applicable for 2026-27.

6 2022 CODE OF GOOD GOVERNANCE FOR SCOTLAND'S COLLEGES

6.1 The latest version of the Scottish Code of Good Governance was published in September 2022. Colleges are asked to comply with the 2022 Code.

7 EQUALITIES

7.1 There are no new matters for people with protected characteristics or from areas of multiple deprivation which arise from consideration of the report.

8 RISK AND ASSURANCE

8.1 Risk of non-compliance with statutory and legal obligations by Board and Committees to ensure good corporate governance and accurate financial reporting.

9 RECOMMENDATIONS

9.1 Members are recommended to:

- Note no significant changes in Accounts Direction guidance for 2024-25 Financial Statements production; and
- note the contents of this report and the attachment in relation to the annual Financial Statements that will be produced for 2024-25.

FINANCE & RESOURCES COMMITTEE

DATE	26 August 2025
TITLE OF REPORT	Accounting Policies for Financial Statements 2024/25
REFERENCE	05.11
AUTHOR AND CONTACT DETAILS	Elaine McKechnie Vice Principal – Finance, Resources & Sustainability Elaine.mckechnie@slc.ac.uk
PURPOSE:	To present and seek approval from Members for the accounting policies within the Financial Statements for year ended 31 July 2025.
KEY RECOMMENDATIONS/ DECISIONS:	The Committee is asked to: <ul style="list-style-type: none"> • Note and approve the proposed accounting policies contained within the appendix.
RISKS	The main risks in failing to adhere to accounting policies are to: <ul style="list-style-type: none"> • Going concern due to poor financial oversight and management; • operational failure as financial Statements are a prerequisite for contracts and for continued central funding, and • statutory non-compliance with sponsors and regional bodies such as Lanarkshire Regional Strategic Body, the Scottish Funding Council, Audit Scotland and, ultimately, the Scottish Parliament.
RELEVANT STRATEGIC AIM:	<ul style="list-style-type: none"> • The Student Experience • Culture and People Development • Growth and Innovation • Sustainability
SUMMARY OF REPORT:	<ul style="list-style-type: none"> • The Committee is asked to review and agree the anticipated accounting policies for use within the financial statements. • No updates are proposed to accounting policies this year.

1. INTRODUCTION

- 1.1. This paper provides an overview of the College's anticipated accounting policies for use within the Financial Statements for the year ended 31st July 2025.

2 BACKGROUND

- 2.1 Accounting policies are the rules and guidelines that are selected by the College for use in preparing and presenting its financial statements. Accounting policies are important, as they set a framework, which all Colleges follow, and provide comparable and consistent standard financial statements across years and relative to other Colleges.
- 2.1 The financial statements are prepared in accordance with the Statement of Recommended Practice (SORP) 2019: 'Accounting for Further and Higher Education' and the 2024/25 Government Financial Reporting Manual (FReM) issued by the Scottish Government and in accordance with Financial Reporting Standards (FRS 102). The College is a public benefit entity and therefore applies the public benefit requirements of FRS102. They conform to relevant parts of the Scottish Public Finance Manual (SPFM), the Accounts Direction and other guidance issued by the Scottish Funding Council (SFC).
- 2.2 Significant accounting policies should be disclosed particularly in the event of a change in policy or in relation to a material item. The accounting policy for a particular item within the financial statements may be disclosed within the note for that item.

3 PROPOSED CHANGES

- 3.1 There are no proposed changes to accounting policies in 2024/25.
- 3.2 The requirements of the SORP 2019, the FReM and FRS102 remain consistent with 2023/24 and the College has not engaged in any activity during the year which would require a change or introduction of an additional accounting policy.
- 3.3 The Committee is however asked to note that a new FEHE SORP will apply to accounting periods beginning on or after 1 January 2026 (i.e. year ending 31 July 2027 for most Further and Higher Education Providers).
- 3.4 The College is therefore entering a critical phase of preparation for the changes ahead and must turn its attention to implementation—ensuring systems, policies, and teams are ready for the new requirements from the start of the next financial year.
- 3.5 The main areas of change for the College sector will relate to income recognition criteria and the incorporation of operating leases as a right-of-use asset on the balance sheet, for which a change in accounting policy is expected.
- 3.6 The Finance team will provide further updates on the impact of the proposed SORP updates in due course.

4 RESOURCE IMPLICATIONS

4.1 The successful compilation of the Financial Statements is dependent on Finance Team compliance with these policies.

4.2 The College Finance Team must ensure that their knowledge is up to date on all accounting policies to ensure the accuracy of the accounts that they prepare.

5 EQUALITIES

5.1 There are no new matters for people with protected characteristics or from areas of multiple deprivation which arise from consideration of the report.

6 RISK AND ASSURANCE

6.1 The main risks in failing to adhere to accounting policies are to:

- 6.1.1 Going concern due to poor financial oversight and management of results;
- 6.1.2 operational failure as financial Statements are a prerequisite for contracts and for continued central funding, and
- 6.1.3 statutory non-compliance with sponsors and regional bodies such as Lanarkshire Regional Strategic Body, the Scottish Funding Council, Audit Scotland and, ultimately, the Scottish Parliament.

7 RECOMMENDATIONS

7.1 The Committee is asked to:

- 7.1.1 Note and approve the proposed accounting policies contained within the appendix.

APPENDIX 1 STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

1. STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

Basis of Preparation

These financial statements have been prepared in accordance with the Statement of Recommended Practice (SORP) 2019: 'Accounting for Further and Higher Education' and the 2024/25 Government Financial Reporting Manual (FReM) issued by the Scottish Government and in accordance with Financial Reporting Standards (FRS 102). The College is a public benefit entity and has therefore applied the public benefit requirements of FRS102. They conform to relevant parts of the Scottish Public Finance Manual (SPFM), the Accounts Direction and other guidance issued by the Scottish Funding Council.

Basis of Accounting

The financial statements are prepared under the historical cost convention modified by the revaluation of land and buildings.

The accounting policies contained in the FReM apply International Reporting Standards as adapted or interpreted for the public sector context. Where the FReM is contradicted by the SORP, the SORP has taken precedence. The particular policies adopted by the College in dealing with items that are considered material to the financial statements are set out below.

Income recognition

Income from the sale of goods or services is credited to the Statement of Comprehensive Income (SOCl) when the goods or services are supplied to the external customers, or the terms of the contract have been satisfied.

Fee income is stated gross of any expenditure and credited to the SOCI over the period in which students are studying. Investment income is credited to the statement of comprehensive income and expenditure on a receivable basis.

Funds the College receives and disburses as paying agent on behalf of a funding body are excluded from the income and expenditure of the College where the College is exposed to minimal risk or enjoys minimal economic benefit related to the transaction.

Grant Funding

Government revenue grants, including Funding Council block grant are recognised in income over the periods in which the College recognises the related costs for which the grant is intended to compensate. Where part of a government grant is deferred, it is recognised as deferred income within creditors and allocated between creditors due within one year and due after more than one year as appropriate.

Grants from non-government sources are recognised in income when the College is entitled to the income and performance related conditions have been met. Income received in advance of performance-related conditions being met is recognised as deferred income within creditors on the balance sheet and released to income as the conditions are met.

Donations and endowments

Non-exchange transactions without performance-related conditions are donations and endowments. Donations and endowments with donor-imposed restrictions are recognised in income in the SOCI at the point when the College is entitled to the funds. They are subsequently retained within a restricted reserve until such time that expenditure is incurred in line with such restrictions at which point the income is released to unrestricted reserves through a reserves transfer. Donations with no restrictions are recognised in income in the SOCI when the College is entitled to the funds.

Investment income and appreciation of endowments is recorded in income in the year in which it arises and as either restricted or unrestricted income according to the terms of the restriction applied to the individual endowment fund.

There are four main types of donations and endowments identified within reserves:

1. Restricted donations - the donor has specified that the donation must be used for a particular objective;
2. Unrestricted permanent endowments - the donor has specified that the fund is to be permanently invested to generate an income stream for the general benefit of the College;
3. Restricted expendable endowments - the donor has specified a particular objective other than the purchase or construction of tangible fixed assets, and the College has the power to use the capital;
4. Restricted permanent endowments - the donor has specified that the fund is to be permanently invested to generate an income stream to be applied to a particular objective.

Capital grants

Government capital grants are recognised in income over the expected useful life of the asset. Other capital grants are recognised in income when the College is entitled to the funds subject to any performance-related conditions being met.

Fixed Assets

The College's buildings are specialised buildings and are revalued to fair value. They are revalued on a three-year cycle unless there is evidence of a material movement in them. Buildings, including the College's eco-house, are depreciated over the expected useful economic life to the College of 40 years, but land is not depreciated.

The College employs a £10,000 threshold for capitalisation of fixed assets and assets purchased in year are only charged 6 months depreciation. Capital items that fall below the £10,000 threshold for capitalisation will be charged directly to the Income and Expenditure account in the period of purchase, and where applicable will have capital grant funding released against these items. This covers mainly lower value items from the college estate. Individual assets whose costs fall below the threshold but are of a similar type are grouped.

Where assets are purchased with the aid of government capital grants, they are capitalised and depreciated per the rates shown below. Government capital grants relating to specific capital expenditure on depreciable assets are treated as a deferred credit and are recognised in

income on a systematic basis over the expected useful lives of the assets to which the grants relate.

A review for impairment of fixed assets is carried out at each reporting date.

Other fixed assets are carried at depreciated historical cost, which is used as a proxy for fair value. Depreciated historical cost is deemed to be more appropriate than revaluing other assets, as it is common for such assets to reduce in value, rather than increase, as they are utilised by the College.

Surpluses arising on the revaluation of the College's properties are transferred to the revaluation reserve. Additional depreciation on the revalued amount of these assets is transferred from revaluation reserve to unrestricted reserve together with any surplus or deficit on disposal.

Intangible Assets

Intangible assets are carried at fair value, these include software or development costs. They are amortised on a straight-line basis over estimated useful lives of four years. The college shall recognise an intangible asset only if:

- (a) it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
- (b) the cost or value of the asset can be measured reliably.

Depreciation

Depreciation is charged over the estimated useful life of the asset to the residual value of the asset where appropriate. Depreciation rates used are as follows:

Land	Land is not depreciated
Buildings	2.5% per annum straight line
Furniture & Fittings	25% per annum straight line
Computer Equipment	25% per annum straight line
Intangible Assets	25% per annum straight line
Plant & Equipment	4% and 10% per annum straight line
Eco-House	2.5% per annum straight line
Motor Vehicles	33% per annum straight line

Stocks

Stocks are stated at the lower of cost and net realisable value.

Accounting for Retirement Benefits

All members of staff have the option of joining a pension scheme. The schemes currently open to members of staff are the Scottish Teachers' Superannuation Scheme (STSS) and the Strathclyde Pension Fund (SPF). These schemes are defined benefit schemes which are externally funded.

Full provision has been made for those pension costs which do not arise from external defined benefit schemes.

Defined Benefit Schemes

Defined benefit schemes are post-employment benefit plans other than defined contribution schemes. Under defined benefit schemes, the College's obligation is to provide the agreed benefits to current and former employees, and actuarial risk (that benefits will cost more or less than expected) and investment risk (that returns on assets set aside to fund the benefits will differ from expectations) are borne, in substance, by the College. The College should recognise a liability for its obligations under defined benefit schemes net of plan assets. This net-defined benefit liability is measured as the estimated amount of benefit that employees have earned in return for their service in the current and prior periods, discounted to determine its present value, less the fair value (at bid price) of scheme assets. The calculation is performed by a qualified actuary using the projected unit credit method. Where the calculation results in a net asset, recognition of the asset is limited to the extent to which the College is able to recover the surplus either through reduced contributions in the future or through refunds from the scheme.

Strathclyde Pension Fund

The Strathclyde Pension Fund is a pension scheme providing benefits based on pensionable pay. The assets and liabilities of the scheme are held separately from those of the College. Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high-quality corporate bond of equivalent term and currency to the liability. Contributions to the Scheme are determined by an actuary on the basis of triennial valuations using the Age Attained Method. Variations from regular cost are spread over the expected average remaining working lifetime of members of the schemes, after making allowances for future withdrawals. The amount charged to the SOCI represents the service cost expected to arise from employee service in the current period.

Scottish Teachers' Superannuation Scheme

The College participates in the Scottish Teachers' Superannuation Scheme pension scheme providing benefits based on pensionable pay. The assets of the scheme are held separately from those of the College. The College is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS102, accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the period.

Employment benefits

Short-term employment benefits such as salaries and compensated absences are recognised as an expense in the year in which the employees render service to the College. Any unused benefits are accrued and measured as the additional amount the College expects to pay as a result of the unused entitlement.

Cash and cash equivalents

Cash includes cash in hand, deposits repayable on demand and overdrafts. Deposits are repayable on demand if they are in practice available within 24 hours without penalty. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash with insignificant risk of change in value.

Financial liabilities and equity

Financial liabilities and equity are classified according to the substance of the financial instrument's contractual obligations, rather than the financial instrument's legal form.

Taxation

The College has been entered into the Scottish Charity Register and is entitled, in accordance with section 13(1) of the Charities and Trustee Investment (Scotland) Act 2005, to refer to itself as a Charity registered in Scotland. The College is recognised by HM Revenue and Customs as a charity for the purposes of section 505, Income and Corporation Taxes Act 1988 and is exempt from Corporation Tax and Capital Gains Tax on its charitable activities. The College receives no similar exemption in respect of Value Added Tax. Irrecoverable VAT is charged to SOCI in the year in which it is incurred.

Maintenance of Premises

The costs of maintaining College premises are charged to the SOCI in the year in which they are incurred.

Operating Leases

Costs in respect of operating leases are charged on a straight-line basis over the lease term. Any lease premiums or incentives are spread over the lease term.

Reserves

Reserves are classified as restricted or unrestricted. Restricted endowment reserves include balances which, through endowment to the College, are held as a permanently restricted fund which the College must hold in perpetuity. Other restricted reserves include balances where the donor has designated a specific purpose and therefore the College is restricted in the use of these funds.

Provisions, contingent liabilities and contingent assets

Provisions are recognised in the financial statements when:

- a. the College has a present obligation (legal or constructive) as a result of a past event;
- b. it is probable that an outflow of economic benefits will be required to settle the

- obligation; and
- c. a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

A contingent liability arises from a past event that gives the College a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the College. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required, or the amount of the obligation cannot be measured reliably.

A contingent asset arises where an event has taken place that gives the College a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the College.

Contingent assets and liabilities are not recognised in the Balance Sheet but are disclosed in the notes to the financial statements.

Changes in accounting policy

There were no changes in accounting policies in the year.

FINANCE AND RESOURCES COMMITTEE

DATE	26 August 2025
TITLE OF REPORT	Review of Actuarial Assumptions, Strathclyde Pension Fund 2024-25
REFERENCE	05.12
AUTHOR AND CONTACT DETAILS	Elaine McKechnie, Vice Principal – Finance, Resources & Sustainability; elaine.mckechnie@slc.ac.uk
PURPOSE:	To request Committee agreement to actuarial assumptions used in the production of pension asset/liability valuations by Hymans Robertson for inclusion within the 2024-25 financial statements.
KEY RECOMMENDATIONS/ DECISIONS:	<p>Members are asked to:</p> <ul style="list-style-type: none"> Assess the initial review of assumptions by the College Finance team for suitability. Approve the use of standard assumptions outlined by the actuaries, Hymans Robertson.
RISK	<ul style="list-style-type: none"> Non-compliance - pension valuations are required under Financial Reporting Standard FRS102 and SORP. Good governance - management must assess assumptions used in the calculation of pension scheme obligations to ensure accurate financial records.
RELEVANT STRATEGIC AIM:	<ul style="list-style-type: none"> The Student Experience Culture and People Development Growth and Innovation Sustainability
SUMMARY OF REPORT:	<ul style="list-style-type: none"> College Finance encourage Committee members to accept the standard assumptions used by the Actuary, Hyman Robertson. The rational for using standard assumptions is that: <ol style="list-style-type: none"> The membership of the Scheme is like other organisations within the Strathclyde Pension Fund; Salary increases are agreed nationally, not at a local level; and the discount rate and CPI for pensions increase are both market derived which is reasonable. Based on the above, there is very little room to make significant changes and while salary growth rates could differ between Colleges based on differing role requirements and staff turnover rates, the College

	<p>wouldn't advise a deviation in rate as this would have the least amount of impact on the figures in the report.</p> <ul style="list-style-type: none"> • The College has provisionally accepted these assumptions for use within the financial statements and this will be communicated back to Audit Scotland as part of the Annual Audit process for 2024-25 in due course.
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1. INTRODUCTION

- 1.1 This paper provides an overview of the assumptions used by the actuarial consultants engaged by the sector for the valuation of the Strathclyde Pension Fund assets and liabilities for disclosure within the annual statutory financial statements and, in italics font, the College's own internal assessment of those actuarial assumptions.

2 BACKGROUND

- 2.1 As part of the financial audit, the auditors, Audit Scotland, need to consider the College's internal assessment of actuarial assumptions.
- 2.2 The assessment made by the College must be evidenced and Management needs to be satisfied with the assumptions used.
- 2.3 Consideration by the College must be given to any relevant, regional or College specific demographic that may alter a disclosure in our financial statements.

3 DISCUSSION

- 3.1 The main actuarial assumptions to be used in the 2024-25 pension fund valuation are as follows:

3.2 Discount Rate

- 3.2.1 FRS102 states that the discount rate used to place a value on the obligations should be determined by reference to market yields on high quality corporate bonds at the reporting date. The currency and term of the high-quality corporate bonds used to set the discount rate should be consistent with the currency and term of the obligations.
- 3.2.2 *The College Finance team view is that the rate is a market-based assumption and there is very little room to make change to this rate. There is no justification for making any changes to this at a local level.*

3.3 Pension Increases (CPI)

- 3.3.1 Pension assumptions are set in line with CPI. As market in CPI linked bonds does not exist, Hymans estimate the long term gap between RPI and CPI to derive a CPI assumption. Their estimate is based on analysis of past and emerging future trends in gap in these indices and provides an average gap for each of the durations.
- 3.3.2 *The College Finance team believe this to be a reasonable assumption at Fund level. The Actuary is best placed to analyse trends. Pensions are set by the Strathclyde Pension Fund not at local council level and therefore it is reasonable and appropriate to use a national growth / inflation rate in anticipating growth in pensions nationally.*

3.4 Salary Growth

- 3.4.1 Default assumption is set relative to the derived CPI assumption at the reporting date using the same methodology as the latest funding valuation for the Strathclyde Pension Fund and other LGPS funds.
- 3.4.2 *This assumption is reasonable and ensures consistency. Pay Award is set at a national level for all colleges so ensures consistency of approach. It is also consistent with triennial valuation assumptions. This is an area where the College could adjust assumption by a large amount (if appropriate) but it would have the smallest impact on the liability figures.*

3.5 Longevity Assumptions

- 3.5.1 Setting appropriate life expectancies remains a key assumption for accounting disclosures, particularly as the country deals with the ongoing impact of the pandemic and the cost-of-living crisis. Allowance has been made for the latest available life expectancy improvement tables with appropriate parameters to capture the latest available longevity data.
- 3.5.2 *The College is unable to accurately predict death rates at a local level. The use of the national statistic available to all pension funds ensures consistency in approach.*

3.6 Other Demographic Assumptions

- 3.6.1 This includes assumptions around commutation, withdrawal and ill-health retirements. Hyman Robertson use the same demographic assumptions as the latest funding actuarial valuation.
- 3.6.2 *This is at a Fund level, not a local level. The College Finance team have considered the appropriateness of these assumptions since the last triennial review and do not consider that any significant withdrawals from the scheme or ill-health retirements need to be taken into consideration that might change any assumptions.*

4 VOLUNTARY SEVERANCE IMPACT ON ASSUMPTIONS

- 4.1 The College is aware that the recent Voluntary Severance initiative at the College represent a circa 10% reduction in the workforce (39 roles), with approximately 19 roles (5%) from professional services areas with Strathclyde Pension Fund membership.

4.2 Salary Growth

- 4.2.1 Leavers can skew average salary progression, especially if higher-paid or long-tenured staff are departing. As professional services roles are subject to national bargaining, salary is more likely to be standardised in adherence to appropriate pay scales. Moreover, a higher proportion of roles were administrative in nature and a mix of mid to long term tenures were released. The College concludes that the salary growth assumptions used by Hyman at the Fund level will still be appropriate at College level, particularly when assumptions to salary growth would have the smallest impact on liability figures anyway.

4.3 Withdrawal/staff turnover rate

- 4.3.1 Similarly, if more employees are leaving than expected, actuaries may need to revise the withdrawal rate assumption upward. The Strathclyde Pension Fund leaving rate at South Lanarkshire College represents approximately 5% of College staff which does not feel significant in the wider context of the Local Government Pension Scheme.

4.4 Membership Profile

- 4.4.1 Many leavers can change the age, tenure, and salary distribution of the active member population. This can influence assumptions like mortality and retirement age. The College does not foresee any need to deviate from standard longevity assumptions as a national approach ensures consistency across all participants of the Scheme, and a 5% reduction in SPF membership at South Lanarkshire College (being a smaller College) does not appear to represent a requirement for any material change to existing assumptions.

5 RESOURCE IMPLICATIONS

- 5.1 Consideration of actuarial assumptions by the College is standard practise each year during the production of the annual pension obligation statement for disclosure in the financial statements.

- 5.2 The College is invoiced for the provision of their actuarial services annually, as is required under accounting standard FRS102.

4.3 The standard FRS102 report cost for 2024-25 is £355 + VAT (2023-24: £352 + VAT) and based on the likely pension asset position for the College Audit Scotland required sight of the asset ceiling calculation from Hymans Robertson at an additional £950 + VAT (2023-24 £950 + VAT).

6 EQUALITIES

- 6.1 All members of staff are eligible to join the appropriate superannuation scheme for their category of staff (i.e. lecturing or support) and are encouraged to do so. Staff are automatically enrolled into the appropriate scheme but can decide to opt out.

- 6.2 There are no new matters for people with protected characteristics or from areas of multiple deprivation which arise from consideration of the report. It is important that the pension assets and liabilities are valued appropriately for the benefit of all staff.

7 RISK AND ASSURANCE

- 7.1 Financial Reporting Standard FRS102 and the SORP require institutions to recognise an estimate of its pension obligations in their financial statements. Failure to devise and assess suitable assumptions and measurements of pension assets and liabilities would put us at risk of non-compliance and failure to undertake management responsibilities in relation to maintaining accurate financial records.

- 7.2 Annual calculations of pension obligations and triennial fund valuations help to assess pension fund performance and bring awareness to those risks however the College cannot directly influence or mitigate any risks associated with the scheme.

- 7.3 In terms of the pension scheme, there are several risks:

- 7.3.1 **Longevity risk** – pension schemes need to pay income to beneficiaries for longer periods of time due to longer life expectancies.

- 7.3.2 **Investment risk** – poor investment returns meaning insufficient funds for beneficiaries; and
- 7.3.3 **Drawdown risk** – multiemployer pension plans could run out of money (such as a Local Government Pension Scheme like the Strathclyde Pension Fund).
- 7.4 The reporting of these risks ultimately sits with Hymans Robertson, professional actuarial advisors to the College. Employing the services of a qualified actuary also gives the College the most informed and consistent measurement of scheme assets and liabilities possible. The management of investment and drawdown risks ultimately rests with those charged with managing the funds and getting the funding strategy right is critical to the achievement of this.

8 RELIANCE ON PROFESSIONAL ADVISORS

- 8.1 It is worth noting that we rely heavily on the actuary's technical expertise in devising suitable assumptions for the valuation of the pension assets and liabilities. While the actuaries would accept a challenge from the College to any assumptions made, it would not be common practice for us to question or doubt these assumptions as we take the view that as contracted advisors to the College, their assumptions will be the most appropriate. We can also take comfort from the view of our external auditors, Audit Scotland, that they are content with the approach taken, and the indices and factors used, by Hymans Robertson.
- 8.2 A full guide to actuarial assumptions as produced by Hymans Robertson is attached to this memo.

9 RECOMMENDATIONS

- 9.1 Committee Members are recommended to:
- 9.1.1 note the contents of this report and the initial assessment performed by College Finance as to the appropriateness of actuarial assumptions; and
- 9.1.2 agree that the assessment performed by College Finance is appropriate and conclude that no changes to key assumptions is required.

FINANCE & RESOURCE COMMITTEE

DATE	26 August 2025
TITLE OF REPORT	Environmental Sustainability Policy
REFERENCE	06.2
AUTHOR AND CONTACT DETAILS	Climate Change Operational Leads (CCOL): Craig Ferguson, Head of Facilities Craig.Ferguson@slc.ac.uk Wilma MacLeod, Head of Curriculum Wilma.MacLeod@slc.ac.uk James Jamieson, Depute Head of Curriculum James.Jamieson@slc.ac.uk
PURPOSE:	To provide an overview and request members to approve the Environmental Sustainability Policy.
KEY RECOMMENDATIONS/ DECISIONS:	Members are recommended to: <ul style="list-style-type: none"> • Approve the Environmental Sustainability Policy • Remit the policy to the Board for approval
EQUALITIES	There are no adverse implications for equalities identified within the attached report.
RISK	The main risks to the College of failing to implement an Environmental Sustainability Policy are: <ul style="list-style-type: none"> • That the College fails to meet sustainability objectives and cannot contribute towards net zero targets by 2040; • That the College fails to comply with environmental regulatory bodies, damaging the College's reputation and incurring legal penalties; • That the College contributes towards environmental harm through practices like excessive resource consumption and inefficient waste disposal; and • That the College does not have up to date policies in place to safeguard and future proof the organisation, ensuring proper use of public funds.
RELEVANT STRATEGIC AIM:	<ul style="list-style-type: none"> • The Student Experience • Growth and Innovation • Sustainability
SUMMARY OF REPORT:	<ul style="list-style-type: none"> • The report sets out the key contents of the Policy, describing guiding principles for each College priority area: <ul style="list-style-type: none"> • Climate Action and Carbon Reduction; • Resource Efficiency and Waste Reduction;

	<ul style="list-style-type: none"> • Sustainable Procurement and Community Engagement; • Biodiversity and Ecosystem Protection; and • Learning and Teaching <ul style="list-style-type: none"> • The CCOL (authors of the report) are responsible for monitoring the progress of climate change initiatives, actions and legislative requirements, as well as providing quarterly updates to the Senior Leadership Team and Board of Management. • To ensure the College remains vigilant and proactive in its pursuit of environmental sustainability, this Policy will be reviewed annually by CCOL in recognition of the pace of legislative changes and technological advancements in the field of sustainability.
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1 INTRODUCTION

1.1 The purpose of this paper is to provide an overview of the College's Environmental Sustainability Policy and request member approval.

2. THE POLICY

2.1 The Policy applies to all employees, students, contractors, and stakeholders associated with South Lanarkshire College (SLC).

2.2 SLC recognises its responsibility to safeguard the environment for current and future generations. The Policy outlines the College's approach to reducing waste, conserving energy, influencing sustainable practices, and achieving Net Zero by 2040.

3 SCOPE

3.1 The Policy covers the following sections:

- 3.1.1 Climate Action and Carbon Reduction;
- 3.1.2 Resource Efficiency and Waste Reduction;
- 3.1.3 Sustainable Procurement and Community Engagement;
- 3.1.4 Biodiversity and Ecosystem Protection; and
- 3.1.5 Learning and Teaching

3.2 The Climate Change Operational Leads (listed as owners of this accompanying paper) have responsibility for monitoring progress of climate change initiatives, actions and legislative requirements, as well as providing quarterly updates to the Senior Leadership Team and Board of Management.

4 REVIEW

4.1 To ensure the College remains vigilant and proactive in its pursuit of environmental sustainability, this Policy will be reviewed annually by CCOL in recognition of the pace of legislative changes and technological advancements in the field of sustainability.

5 EQUALITIES

5.1 There are no adverse implications for equalities identified within the attached report.

6 RISK AND ASSURANCES

6.1 The main risks to the College of failing to implement an Environmental Sustainability Policy are:

- 6.1.1 That the College fails to meet sustainability objectives and cannot contribute towards net zero targets by 2040;

- 6.1.2 That the College fails to comply with environmental regulatory bodies, damaging the College's reputation and incurring legal penalties
- 6.1.3 That the College contributes towards environmental harm through practices like excessive resource consumption and inefficient waste disposal; and
- 6.1.4 That the College does not have up to date policies in place to safeguard and future proof the organisation, ensuring proper use of public funds.

7 RECOMMENDATIONS

7.1 Members are recommended to:

- 7.1.1 Approve the Environmental Sustainability Policy; and
- 7.1.2 Remit the policy to the Board for approval.

Environmental Sustainability Policy

Owner: Head of Facilities

**Date February 2025
Version: 1.0**

Document Information

Procedure Published/Created:	April 2025
Reviewed Date:	
Owner:	Head of Facilities
Approved by:	
Equality Impact Assessment:	
Next Review Date:	February 2026

Version History

Version Number	Date	Author	Rationale
1.0	April 2025	W. MacLeod C.Ferguson J.Jamieson	Document Creation

Quick Links

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2. Introduction

South Lanarkshire College (SLC) recognises its responsibility to safeguard the environment for current and future generations. The College is committed to reducing its environmental impact and promoting sustainable practice by improving energy efficiency, reducing its carbon footprint, and encouraging sustainable behaviours among staff, students, stakeholders including contractors, and the wider community.

This Environmental Policy outlines the College's approach to reducing waste, conserving energy, influencing sustainable practices, and achieving Net Zero by 2040.

The College Climate Change Emergency Action Plan (CCEAP) and Public Body Climate Change Duties Report (PBCCDR), which detail our commitment to sustainability, are available on the College website

<https://sustainablesotlandnetwork.org/reports/south-lanarkshire-college>

3. Purpose of the Policy

The purpose of this Policy is to outline SLC's commitment to environmental sustainability and resource management. In line the Environment Association of Universities and Colleges (EAUC) guidelines, this policy provides a framework to integrate sustainable environmental practices into all aspects of our activities, and to ensure continuous improvement by:

- complying with all relevant environmental legislation, regulations and best practices;
- reducing our environmental impact by improving energy efficiency;
- managing waste responsibly;
- encouraging recycling and circular behaviours;
- enhancing sustainability through responsible procurement, biodiversity protection, and water conservation;
- working closely with local, regional and national stakeholders actively involved in actions and training to tackle climate emergency; and

- creating a culture of sustainability among staff students, stakeholders and the wider community and stimulate actions tangible actions and initiatives with targeted impact towards our journey to net zero.

4. Scope of the Policy

This policy applies to all employees, students, contractors, and stakeholders associated with South Lanarkshire College

5. Policy Statement

5.1 Climate Action and Carbon Reduction

- aim to achieve net-zero carbon emissions by 2040;
- increase energy efficiency; and
- promote sustainable travel options;

5.2 Resource Efficiency and Waste Reduction

- implement a circular economy approach by reducing, reusing and recycling materials;
- minimise single-use plastics and promote responsible consumption; and
- optimise water use and reduce waste generation.

5.3 Sustainable Procurement and Community Engagement

- prioritise ethical and environmentally responsible suppliers;
- encourage procurement of sustainable and locally sourced goods and services; and
- collaborate with other College in pursuit of similar procurement initiatives.

5.4 Biodiversity and Ecosystem Protection

- protect and enhance biodiversity on and around the College campus;
- support conservation initiatives and sustainable land use;

5.5 Learning and Teaching

- integrate environmental sustainability into the curriculum, equipping students to shape a more sustainable future through the provision of training that keeps pace with growing green skills demand within the economy; and
- support the development of staff by providing CPD opportunities that encourage sustainable behaviours
- encouraging students and staff to host events and run workshops to raise awareness about environmental issues e.g. Climate Change Week;

6. Governance

6.1 The Head of Facilities has responsibility for implementing this policy, with support from the Climate Change Operational Leads (CCOL) and the Climate Change Action Team.

6.2 The CCOL are responsible for monitoring the progress of climate change initiatives, actions and legislative requirements, as well as providing quarterly updates to the Senior Leadership Team and Board of Management.

7. Review

7.1 To ensure the College remains vigilant and proactive in its pursuit of environmental sustainability, this Policy will be reviewed annually by CCOL in recognition of the pace of legislative changes and technological advancements in the field of sustainability.



South
Lanarkshire
College

East Kilbride

FINANCE AND RESOURCES COMMITTEE

DATE	26 August 2025
TITLE OF REPORT	College Capital Expenditure Schedule to 31 July 2025
REFERENCE	07.1
AUTHOR AND CONTACT DETAILS	<p>Bill McMahon – Management Accountant Bill.McMahon@slc.ac.uk</p> <p>Elaine McKechnie – Vice Principal Finance, Resources & Sustainability Elaine.McKechnie@slc.ac.uk</p>
PURPOSE:	To present the schedule being maintained by the College in respect of its capital requirements
KEY RECOMMENDATIONS/ DECISIONS:	<p>Members are asked to:</p> <ul style="list-style-type: none"> note the level of capital investment that has been incurred for the year to 31 July 2025 (not yet audited);
RISK	<ul style="list-style-type: none"> That there are insufficient funds for capital project and maintenance requirements.
RELEVANT STRATEGIC AIM:	<ul style="list-style-type: none"> The Student Experience Growth and Innovation Sustainability
SUMMARY OF REPORT:	<ul style="list-style-type: none"> The College has spent a provisional £637,298 on capital works in the 12 months to 31 July 2025. The College had spent its Capital Departmental Expenditure Limits (CDEL) funding of £425,233 in full by 31 July 2025. The Resource Departmental Expenditure Limits (RDEL) funding of £425,037 has also been absorbed within revenue budgets. Internal quarterly capex meetings continue to ensure appropriate allocation of the SFC budget across 2024/25 and the next meeting will take place in early September 2025.

1 INTRODUCTION

1.1 This paper outlines the capital expenditure schedule, funding and expenditure for the year 2024-25.

2. EXPENDITURE AND AVAILABLE FUNDS

2.1 For Capital Departmental Expenditure Limits (CDEL), the College has spent a provisional total of £637,298 in the twelve months to 31 July 2025 (prior to finalisation of balances for external audit).

2.2 As per the announcement from the Scottish Funding Council in December 2024, the College had flexibility to reclassify £425,037 of its £850,260 capital budget for revenue related expenditure and retain £425,037 for CDEL. However, there was also a residual balance of £169,495 ring-fenced strategic investment funding deferred from prior year to support 2024-25 projects which has now been expended in full this year; £594,532 in total.

2.3 The flexibility granted in allowing the conversion of some CDEL funding into RDEL funding has helped to support the purchase of items of a capital expenditure that do not meet the £10,000 balance sheet threshold. These costs can therefore be absorbed under repairs and general maintenance expenditure.

2.4 . In terms of CDEL, the main projects supported during the year include:

- 2.4.1 Canteen upgrade £76,504
- 2.4.2 IT Firewall replacement and configuration £51,157
- 2.4.3 Support Staff Office reconfigurations £57,211
- 2.4.4 New TV screen in Atrium £22,254
- 2.4.5 Digital Media Room £19,554
- 2.4.6 Website upgrade £17,901
- 2.4.7 Hairdressing & Barbering salon works £58,626
- 2.4.8 Heath and Social Care Mannequin investment £37,298
- 2.4.9 Refurbishment of Painting & Decorating Workshops £33,363
- 2.4.10 Clevertouch Screen Replacement £55,014
- 2.4.11 Student Records system £45,744
- 2.4.12 MIS Planned capital expenditure £162,672

2.5 The Committee is reminded that there was no Digital Poverty funding for 2024-25.

3. CAPEX BUDGET 2025/26

3.1 SFC Funding for 2025/26 amounts to a total of £892k. The high-level plan is contained in appendix 1.

3.2 The College commits to ensuring that capital projects allocated against specific tranches of funding are progressed throughout the academic year.

3.3 The quarterly CAPEX meeting with curriculum Heads, the Head of Facilities, the Head of MIS, the Head of Finance, the Management Accountant and the Procurement Manager continue in the College, enabling discussions on prioritisation of works requested.

3.4 The next meeting is scheduled for early September 2025 and it is anticipated that the group will review a draft internal Capital Investment Policy and Procedure, documenting required processes and approvals for establishing capital projects to enhance controls across the College. These documents will also be brought to a future committee for consumption and comment in due course.

3.5 Details of proposed 2025/26 capex projects will be more fully scoped out in the coming weeks in alignment with the College's new strategic goals and priorities.

4. RISKS AND ASSURANCES

4.1 The main risks are:

- 4.1.1 That there are insufficient funds for capital project and maintenance requirements,
- 4.1.2 That there is now an incorrect allocation of funding against repair or maintenance costs which would be in breach of the SFC's terms and conditions of funding;
- 4.1.3 that there is a lack of accuracy in the reporting of capital projects; and
- 4.1.4 that works are not authorised prior to commencement of projects.

4.2 However, committee members are reminded that Capital expenditure continues to be a focus for the College and regular monthly reporting and communication with the respective faculty managers helps to ensure that spend is allocated against specific projects within the required timeframe.

4.3 Furthermore, as noted above, the intended launch of a Capital Investment Policy and Procedure to support the procurement of larger capital works and to better inform decision-making processes on areas of priority in alignment with the College's strategic aims.

5. EQUALITIES

5.1 There are no new matters for people with protected characteristics or from areas of multiple deprivation which arise from consideration of the report.

6. RECOMMENDATIONS

Members are asked to:

- 6.1.1 note the level of capital investment that has been incurred for the year to 31 July 2025 (not yet audited).

APPENDIX 1: CAPEX BUDGET 2025-26

The following high level capital expenditure plan was devised in support of the College's strategic goals when the budget for 2025-26 was formulated in April 2025.

- External cladding repairs to maintain weather proofing of the building - £30k.
- Boiler replacement, supporting sustainability aims - £50k.
- MIS IT spend for system continuity - £170k.
- Lapsafe system, to support the College in digital pursuits - £110k.
- IT device refresh, owing to windows 11 expiry - £130k.
- Access Control system - £192k.
- Horticultural glasshouse/space renovation - £30k.
- Outdoor Classroom, including turf and horticultural activities = £20k.
- Reconfiguration of college spaces - £100k.
- Contingency spend - £60k.

The College will now fully scope out the above proposed spend for 2025-26, noting process and required approvals in September 2025 and bring updates to the Committee in due course.

FINANCE AND RESOURCES COMMITTEE

DATE	26 August 2025
TITLE OF REPORT	CLIC Innovation Centre for Sustainable Development (CSD) funded by Innovate UK Further Education Innovation Fund: An Update
REFERENCE	07.2
AUTHOR AND CONTACT DETAILS	Elaine McKechnie, Vice Principal – Finance, Resources & Sustainability Elaine.McKechnie@slc.ac.uk
PURPOSE:	To update the Committee on the progress of CLIC Innovate UK project
KEY RECOMMENDATIONS/ DECISIONS:	<p>The Committee is recommended to:</p> <ul style="list-style-type: none"> • Review contents of the paper; • Take assurance from the work ongoing within Alternative Funding to quantify outcomes and mitigate risks going forward. • Recognise the significant impact of this project on future initiatives and possible funding opportunities for the College. • Acknowledge the potential leverage the project represents in the college transformation agenda and its forthcoming Strategy 2025-2030.
RISK	<ul style="list-style-type: none"> • The financial risk to the College through failure to maximise potential available funding because of poor uptake with local businesses, and • Reputational risk to the College through failure to support and progress initiatives with local businesses.
RELEVANT STRATEGIC AIM:	<ul style="list-style-type: none"> • The Student Experience • People and Culture Development • Growth and Innovation • Sustainability
SUMMARY OF REPORT:	<ul style="list-style-type: none"> • The UKRI CLIC project entered its Phase 2 from 1st April 2025 for another 12 months to 31st March 2026. • The Business Innovation team have prepared a high-level plan for 2025-26 which is currently being finetuned to launch across September 2025 – March 2026. • The College, as lead partner, has submitted an application for Scottish Education Exchange Programme Test and Learn Year 3 Funding on behalf of the CLIC consortium, demonstrating the breadth of potential for greater innovation and income growth. The outcome of the bid is expected in September 2025.

1 INTRODUCTION

- 1.1. This paper provides an overview of progress of the UKRI funding for CLIC Innovate project.

2 CLIC INNOVATE UK

- 2.1 The Glasgow City Region colleges secured another £1.2M to consolidate their now established network of 6 innovation centres across the region. South Lanarkshire College is the Local Innovation Centre for Sustainable Development and is engaging with relevant business support networks. Funding is in place until 31 March 2026 and the College stands to recognise £195k of funding through its delivery of the programme across 2025-26.

3 ACTIVITY TO DATE (PHASE 2 TO 31st March 2026)

- 3.1 The rebranded Business Innovation Team continue to lead and oversee all associated project work within this programme.
- 3.2 A recent internal meeting of the team has provisionally ear marked 3 main strands to the funding available for 2025-26.
- 3.3 **Business Innovation** – The College attributes much of phase 1 success to the ongoing inputs from Curriculum staff to engage with local businesses and deliver much of the project. However, for phase 2, the College will explore other means of project delivery that are less time-intensive on Curriculum staff. It will look to other partners who may be willing to support delivery. It may enhance its digital offering (under the banner of sustainability) to businesses through the recruitment of a temporary developer who could support business needs in a more practical sense. When a business first engages with the College via CLIC portal, it completes a digital skills assessment, and it is recognised that some of the outputs from this may require practical digital support.
- 3.4 **Innovation Hub** – In keeping with the Entrepreneurial Campus, the College anticipates the roll out of up to £25k fund to staff for support to launch mini-innovation projects across the College. This will take the form of an internal bid process, with staff bringing business cases to a panel for review and decision on whether to financially support to follow thereafter. Further information on this initiative will be shared shortly.
- 3.5 **Accelerator Programmes** – There is recognition that local businesses may require support with green technologies and sustainability. The College would therefore seek to run a series of Accelerator Programmes to enhance skills sets in these highly sought after government priority areas.
- 3.6 The Business Innovation team are continuing to review and devise a plan of activity for the year in the weeks ahead and Board members will be invited to attend or input to events as and when they are arranged.
- 3.7 The College recognises the importance of having staff with relevant skills and knowledge and understanding of the project in place. Across this year and owing to the rebrand of the team, the College will look to build staff capacity and capabilities to support businesses more fully in an innovation context.

4 FINANCE

- 4.1 The College recently submitted its claim for the first period of funding from Apr – June 2025 of £34,990. Claims continue to be monitored and audited by an external firm across 2025-26 in order to ensure compliance with the terms and conditions of grant.

5 COLLABORATIVE OPPORTUNITIES FOR OTHER FUNDING STREAMS

- 5.1 The College would like to highlight an added collaborative opportunity that has presented to the CLIC consortium in the Greater Glasgow region.
- 5.2 South Lanarkshire College, on behalf of the six CLIC colleges and the University of Strathclyde, submitted a proposal to the Scottish Education Exchange Programme (SEEP) Test and Learn Year 3 in July 2025, with the aim of enabling key staff to engage directly with selected organisations in leading EU innovation districts. This initiative reflects a globally relevant educational priority and offers a rich opportunity for institutional learning and transnational collaboration. Indicative value of the proposal is £35,000.
- 5.3 The proposed project seeks to enhance the capacity of the six colleges in Glasgow City Region (GCR) to be effective players in the local and national innovation ecosystem, and to establish more effective collaboration with the Scottish university sector. It will be coordinated and managed by South Lanarkshire College, the partner college responsible for coordinating dissemination and impact activities of CLIC (College Local Innovation Centres).
- 5.4 If approved, proposed mobility activities will take place in Spring 2026 - enabling Scottish partners to engage directly with leading European innovation districts, highlighting the college sector's role in shaping innovation ecosystems. These mobilities are designed to foster professional exchange, identify areas of mutual interest, and explore common themes in innovation and enterprise education. This exchange would allow the CLIC partnership to draw actionable insights from European peers, which could be adapted to strengthen Scotland's own innovation landscape. These mobilities are designed to foster professional exchange, identify areas of mutual interest, and explore common themes in innovation and enterprise education.
- 5.5 Following submission, the Scottish Government acknowledged receipt of the bid with an outcome expected to follow in September 2025.

6 EQUALITIES

- 6.1 There are no new matters for people with protected characteristics or from areas of multiple deprivation which arise from consideration of the report.

7 RISK AND ASSURANCE

- 7.1 The following risks have been identified for Phase 2.
- 7.1.1 The College must ensure that the project is appropriately staffed. We are confident that with a new structure and the experience of the new Vice Principal the project will deliver on its targets and expand to be embedded in all college activities.

- 7.1.2 The financial risk to the College through failure to maximise potential available funding because of poor uptake with local businesses.
- 7.1.3 Reputational risk to the College through failure to support and progress initiatives with local businesses.
- 7.2 The CLIC team will continue to publicise and organise events to support with the full delivery of the programme. The College commits to a timely response in relation to audit queries received on claims submitted so as not to delay any forthcoming payment of funding.

8 RECOMMENDATIONS

- 8.1 Members are recommended to:
 - 8.1.1 Review contents of the paper;
 - 8.1.2 Take assurance from the work ongoing within Alternative Funding to quantify outcomes and mitigate risks going forward.
 - 8.1.3 Recognise the significant impact of this project on future initiatives and possible funding opportunities for the College.
 - 8.1.4 Acknowledge the potential leverage the project represents in the college transformation agenda and its forthcoming Strategy 2025-2030.

FINANCE AND RESOURCES COMMITTEE

DATE	26 August 2025
TITLE OF REPORT	Government Financial Reporting Manual (FReM) 2024/25
REFERENCE	07.4
AUTHOR AND CONTACT DETAILS	Elaine McKechnie – Vice Principal, Finance, Resources & Sustainability Elaine.McKechnie@slc.ac.uk
PURPOSE:	To present an overview of key considerations and changes within the Government Financial Reporting Manual (FReM) 2024/25.
KEY RECOMMENDATIONS/ DECISIONS:	Members are asked to: <ul style="list-style-type: none"> • note the content of the report; and • take assurances from the College that it will adhere to the requirements of the FReM 2024-25.
RISK	Failure to adhere to the requirements of FReM 2024-24 puts the College at risk of: <ul style="list-style-type: none"> • Non-compliance and incorrect reporting, impacting on accuracy of Whole of Government Accounts (WGA) and placing College at risk of Audit Qualification; and • Reputational damage through failure to adhere to the Memorandum of Understanding with central Government
RELEVANT STRATEGIC AIM:	<ul style="list-style-type: none"> • The Student Experience • People Development & Culture • Sustainability
SUMMARY OF REPORT:	<ul style="list-style-type: none"> • The FReM is the technical accounting guide on the preparation of the annual report and accounts of the Scottish Government and agencies/public bodies. • There are two changes in year which may impact on College sector financial statements: pension disclosure benefits and the remuneration report. • The College gives assurances that it will fully comply with the requirements of the FReM 2024-25.

1 INTRODUCTION

1.1 This paper outlines overview of key considerations and changes within the Government Financial Reporting Manual (FReM) 2024/25.

2. BACKGROUND

2.1 The FReM is the technical accounting guide on the preparation of the annual report and accounts of the Scottish Government, non-ministerial government departments, government agencies, trading funds and executive non departmental public bodies (NDPBs).

2.2 It is prepared by HM Treasury in consultation with the Financial Reporting Advisory Board (FRAB) and is issued by the relevant authorities

2.3 The accounting policies contained in the FReM follow generally accepted accounting practice (GAAP) to the extent that it is meaningful and appropriate in the public sector context. For the purposes of the FReM, GAAP is taken to be:

2.3.1 the accounting and disclosure requirements of the Companies Act 2006

2.3.2 international financial reporting standards (IFRS - including international accounting standards and International Financial Reporting Interpretations Committee and Standing Interpretations Committee interpretations) as endorsed by the UK.

2.4 Accounts to be published by Scottish bodies like the College follow the format agreed between the Scottish ministers and the Scottish Parliament. In adhering to the FReM, the College accounts will also meet relevant requirements of Scottish legislation and the Scottish Public Finance Manual.

3. FReM 2024-25: KEY CHANGES

3.1 There are very few material and sector-relevant changes noted from the FReM 2024-25 in relation to FReM 2023-24 but the below table summarises the key differences. Only changes deemed to impact on the College sector have been included in this summary.

3.2 Table 1: Summary of FReM 2024-25 amendments to FReM 2023-24

Disclosure	Relevant Paragraph	Description	Potential SLC Impact
Pension benefit disclosure	6.5.8 d) &	Where pension benefit data was previously not available for directors in a timely manner and waiting for it to be finalised riskd	<i>Low likelihood of occurrence. Data was received on timely basis in 2023/24; assume no</i>

	6.5.15	causing a delay to the planned laying of accounts, entities will no longer have any exemption from including a figure for accrued pension benefit in the single total figure of remuneration nor disclosed as a separate component.	further issue in 2024/25.
Remuneration Report	6.5.8 f) & 6.5.15 g)	FReM now requires additional disclosure where an individual included in the Remuneration Report is impacted by the McCloud remedy*. The disclosure explains that the calculation of the disclosed pension benefits must be based on the terms of the legacy scheme for the remedy period, unless the individual actively elects otherwise.	<p>Greater likelihood given McCloud judgement impacts on Scottish Teachers' Pension Scheme (STPS) and Local Government Pension Scheme (LGPS Scotland) such as Strathclyde Pension Fund (SPF).</p> <p>Principal a first time member of STPS from 2020 (no impact);</p> <p>Vice Principal – Finance a first time member of SPF from 2023 (no impact);</p> <p>Vice Principal – Learning, Teaching & Student Experience impacted as member of STPS pre 1 April 2012 and continued service between 1 Apr 2015 and 31 Mar 2022.</p> <p>Vice Principal – Student Experience and Innovation impacted as member of SPF pre 1 Apr 2012 and continued service between 1 Apr 2015 and 31 Mar 2022.</p>

*Please see section 3 below

4. MCCLOUD REMEDY

4.1 The key changes noted in the table above in respect of the remuneration report refer to the McCloud remedy.

4.2 In 2014–2015, public service pensions shifted from final salary schemes to career average schemes. Older members were given transitional protections, but younger members were not. The McCloud judgment ruled this was discriminatory and so a remedy was applied.

4.3 These rulings impact where a staff member was a member of a public service pension scheme before 1 April 2012 and had continued service between 1 April 2015 and 31 March 2022; with no disqualifying break in service.

4.3.1 The Principal and Vice Principal – Finance, Resources & Sustainability are not impacted by the McCloud ruling, being relatively new members of their respective pension schemes.

4.3.2 The Vice Principal – Learning, Teaching & The Student Experience was a member of the STPS prior to 2012 and so disclosure will likely be impacted.

4.3.3 The Vice Principal – Student Experience & Innovation was a member of SPF from 2001 and joined the Lothian Pension Fund (LPF) latterly for 3 years during most recent appointment at Edinburgh College. Disclosure will also be impacted.

4.4 The College will now instruct respective pension agencies to provide pension benefit disclosures in line with these latest FReM requirements for 2024-25.

5. RISKS AND ASSURANCES

5.1 Failure to adhere to the requirements of FReM 2024-24 puts the College at risk of:

5.1.1 Non-compliance and incorrect reporting, impacting on accuracy of Whole of Government Accounts (WGA) and placing College at risk of Audit Qualification; and

5.1.2 Reputational damage through failure to adhere to the Memorandum of Understanding with central Government

5.2 The College gives assurances that it will fully comply with the requirements of the FReM 2024-25.

6. EQUALITIES

6.1 There are no new matters for people with protected characteristics or from areas of multiple deprivation which arise from consideration of the report.

7. RECOMMENDATIONS

7.1 Members are asked to:

7.1.1 note the content of the report; and

7.1.2 take assurances from the College that it will fully comply with the requirements of the FReM 2024-25,

Appendix: Audit Scotland Technical Briefing Note on The Government Financial Reporting Manual: 2024/25 (December 2024)

Technical Briefing Note on

The Government Financial Reporting Manual: 2024/25 (December 2024)



Prepared by Innovation & Quality for auditors in central government, health and college sectors

19 December 2024

Technical Briefing Note on

The Government Financial Reporting Manual: 2024/25 (December 2024)

Overview

1. This Technical Briefing Note prepared by Innovation and Quality (I&Q) provides a synopsis for auditors of the 2024/25 Government Financial Reporting Manual (FReM) issued by HM Treasury.

2. The FReM is the technical accounting guide on the preparation of the annual report and accounts of the Scottish Government, non-ministerial government departments, government agencies, trading funds and executive non departmental public bodies (NDPBs). It is prepared by HM Treasury in consultation with the Financial Reporting Advisory Board (FRAB) and is issued by the relevant authorities in the UK (the Scottish Government in respect of Scotland).

3. The accounting policies contained in the FReM follow generally accepted accounting practice (GAAP) to the extent that it is meaningful and appropriate in the public sector context. For the purposes of the FReM, GAAP is taken to be:

- the accounting and disclosure requirements of the Companies Act 2006
- international financial reporting standards (IFRS - including international accounting standards and International Financial Reporting Interpretations Committee and Standing Interpretations Committee interpretations) as endorsed by the UK.

4. Where required, the FReM includes interpretations and adaptations to apply the standards to the central government context.

5. Paragraph 4.4.1 advises that the accounts to be published by Scottish bodies follow the format agreed between the Scottish ministers and the Scottish Parliament. The format of these accounts is based on the principals but not the detail set out in chapter 4. This means they meet the disclosure requirements which originate in accounting standards or Companies Act application as set out in FReM. These accounts will also meet relevant requirements of Scottish legislation and in the Scottish Public Finance Manual.

Main points for auditors' attention

Pension benefit disclosure

6. The temporary amendment in the 2023/24 FReM covering cases when pension data was not available in a timely manner. has been removed.

7. The previous requirements at paragraphs 6.5.8 d) and 6.5.15 have been reinstated in 2024/25.

Remuneration Report

8. Paragraphs 6.5.8 f) and 6.5.15 g) have been added to require additional disclosure where an individual included in the Remuneration Report is impacted by the McCloud remedy. The disclosure explains that the calculation of the disclosed pension benefits is based on the terms of the legacy scheme for the remedy period, unless the individual actively elects otherwise.

Machinery of government

9. Paragraph 9.1.10 has been amended to explain that where a body is subject to a machinery of government change, and is accounted for using merger accounting, the information required in the Accountability Report must also be restated where prior year comparative information is required. The only exception is the fair pay ratios.

10. Paragraph 9.1.19 has been amended to confirm that, though symmetrical principles should be applied in a business combination by both the transferor and transferee of a function, there are limited instances where merger accounting and absorption accounting can apply at different levels (e.g. when a function is transferred from an NDPB to the Scottish Government).

Consulting with I&Q

11. Auditors should consult with I&Q by completing the [enquiry form](#) and sending it by email to: technicalqueries@audit-scotland.gov.uk



HM Treasury

The Government Financial Reporting Manual: 2024-25

December 2024



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Chapter 1 – Introduction

1.1 The purpose of the Government Financial Reporting Manual (FReM)

1.1.1 Controlling public spending is central to running the country. In a healthy democracy, the power to spend money comes with a responsibility to be open to scrutiny about how that power is used.

1.1.2 The Government Financial Reporting Manual (FReM) sets out core guidance for preparing government annual reports and accounts in the United Kingdom. It complements guidance on the handling of public funds published separately by the relevant authorities in England and Wales, Scotland and Northern Ireland, where these are issued.

1.1.3 The relevant authorities are:

- a) HM Treasury
- b) the Welsh Government
- c) the Scottish Government
- d) the Executive Committee of the Northern Ireland Assembly
- e) the Department of Health and Social Care
- f) CIPFA/LASAAC

1.1.4 Under the Government Resources and Accounts Act 2000 (GRAA 2000) HM Treasury is required to provide directions to certain entities to prepare accounts that:

- a) Present a true and fair view; and
- b) Conform to generally accepted accounting practice subject to adaptations necessary in the context of public sector accounts.

The publication of this manual is one of the ways HM Treasury discharges its responsibilities under the GRAA 2000.

1.1.5 Entities to whom this Manual applies is explained in [section 1.2](#) below.

1.1.6 The FReM is prepared following consultation with the Financial Reporting Advisory Board (FRAB) and is issued by the relevant authorities.

1.1.7 The government has the responsibility to control and account for public expenditure. This Manual provides guidance on the external financial reporting requirements for reporting entities and falls under the government functional standard GovS 006: Finance. GovS 006 is part of a set of operational standards which set the expectations regarding how government is managed. The purpose of GovS 006 is to set out expectations for effective management and use of public funds. GovS 006 is found on the Gov.UK website:
<https://www.gov.uk/government/publications/government-finance-standards-page>

1.1.8 This Manual references Public Expenditure System (PES) papers and Employer Pension Notices (EPNs). These papers and notices can be accessed as follows:

- a) Public Expenditure System (PES) papers can be accessed through One Finance. Registered users can access OneFinance here: <https://gff.civilservice.gov.uk/>
- b) EPNs are linked in [Annex 5](#) to this Manual.

1.2 The scope of the FReM

1.2.1 The FReM applies directly to all entities ('reporting entities') other than those listed in **1.2.2**, and to funds, flows of income and expenditure and any other accounts (referred to collectively as 'reportable activities') that are prepared on an accruals basis and consolidated within the Whole of Government Accounts (WGA) (with the exception of the accounts of any reportable activities that are not covered by an Accounts Direction). Relevant authorities and sponsor departments may also require other entities not consolidated in the WGA, through an accounts direction or a framework agreement, to apply the FReM,

1.2.2 The FReM does not apply to:

- Local government,
- those public corporations that are not trading funds, and
- NHS Trusts, NHS Foundation Trusts and Clinical Commissioning Groups.

1.2.3 The Department for Health and Social Care Group Accounting Manual, the NHS Foundation Trust Annual Reporting Manual and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom are compliant with this Manual other than for specific divergences.

1.2.4 In addition, the Welsh Government and the Department of Health in Northern Ireland will apply the principles outlined in the FReM in the accounting guidance that they issue in respect of NHS Bodies in Wales¹, and Health and Social Care Trusts in Northern Ireland.

1.2.5 More detailed guidance on the applicability of the FReM to different bodies is provided in [section 4.3](#) and [section 4.4](#) of this manual.

1.3 The structure and contents of the FReM

1.3.1 The FReM consists of this introduction followed by four sections of guidance, each with its own purpose:

Part A: Purposes, principles and best practice, including:

- [Chapter 2](#) explains what government financial reporting and government annual reports and accounts are, before outlining the purposes and principles of government financial reporting and the importance of user engagement.
- [Chapter 3](#) sets out the role of narrative reporting, including the need for balance, the importance of providing context and trends and the importance of making narrative clear and usable.

¹ This includes Local Health Boards, NHS Trusts in Wales and Strategic Health Authorities

Part B: The form and content of government annual reports and accounts:

- [Chapter 4](#) gives an overview of the required format and content of the annual reports and accounts for entities covered by the requirements of this Manual, including a discussion of some of the underpinning concepts.
- [Chapter 5](#) outlines the requirements of the performance report.
- [Chapter 6](#) outlines the requirements of the accountability report.
- [Chapter 7](#) provides guidance to reporting entities on the format and content of the financial statements.

Part C: Application of accounting standards for government annual reports and accounts.

- [Chapter 8](#) outlines UK adopted International Financial Reporting Standards (IFRS), together with a record of whether they have been adapted or interpreted for the public sector context in this Manual.

Part D: Further guidance for government annual reports and accounts

- [Chapter 9](#) provides further guidance on accounting boundaries, including accounting for transfers of function between public sector bodies.
- [Chapter 10](#) gives further guidance on accounting for assets and liabilities, including PPE, the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme, intangible assets, impairments and inventories.
- [Chapter 11](#) provides further guidance on accounting for certain specific income and expenditure, including Supply, Consolidated Fund income and the Apprenticeship Levy.

Part E: Additional guidance

- [Chapter 12](#) outlines further guidance on accounting for pensions, covering pensions accounting by employers and pensions accounting by certain public sector pension schemes.
- [Chapter 13](#) considers the specific accounting and disclosure requirements adopted in the Whole of Government Accounts.

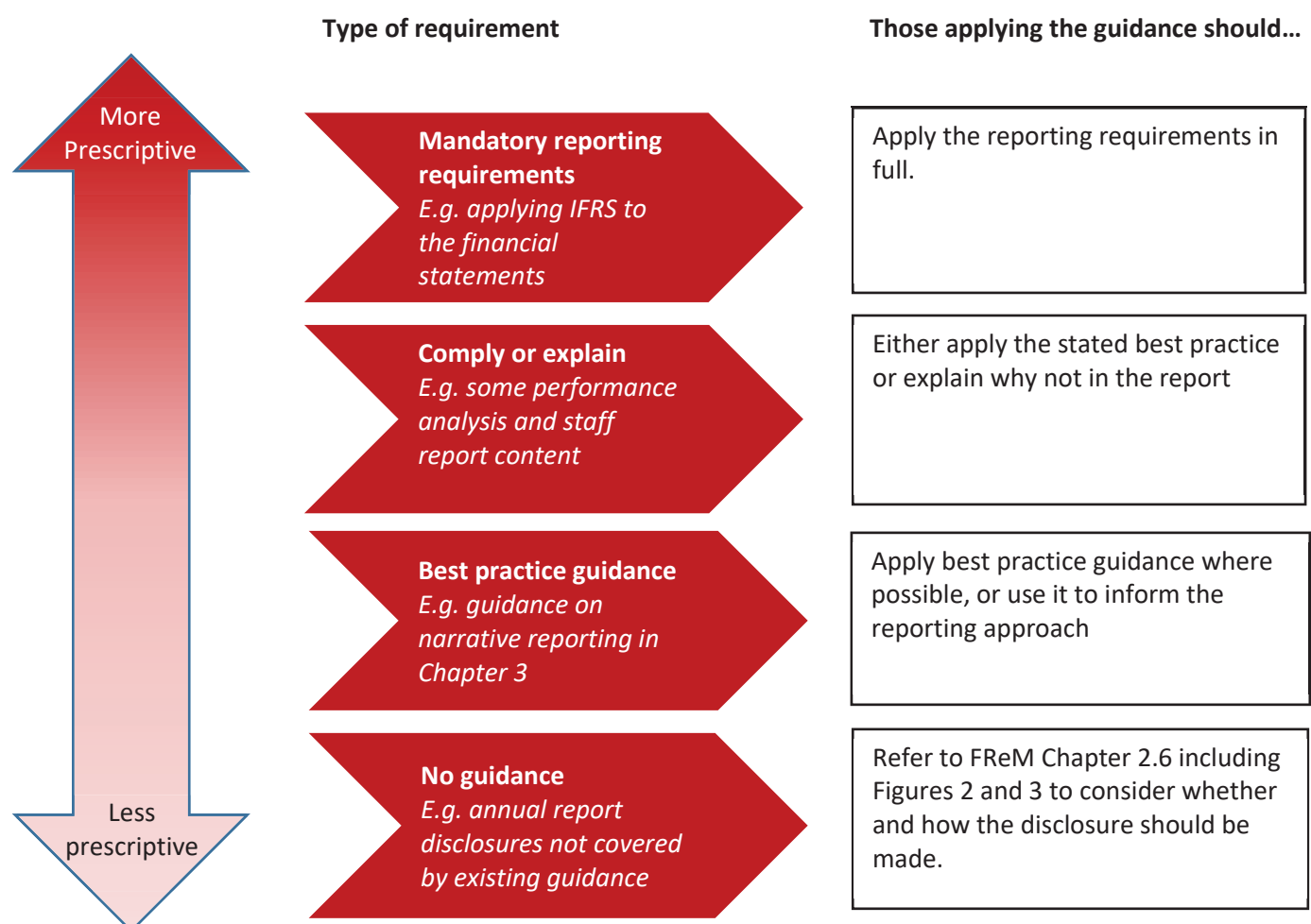
1.3.2 The five annexes give illustrative wording on specific points and links to further resources. Full illustrative financial statements are also available on [gov.uk](https://www.gov.uk).

1.4 How to apply the FReM

1.4.1 Government annual reports and accounts are prepared within a principles-based framework. The Treasury and other relevant authorities make many of the decisions about how best to apply the principles to reports across government. This ensures consistency, making it easier for users to understand and compare financial reports.

1.4.2 Annual reports and accounts are composite documents, bringing together different kinds of information. This Manual sets out mandatory reporting requirements for the financial statements, and for some parts of the annual report. It also includes less prescriptive guidance to support a more flexible approach in other parts of the annual report.

- 1.4.3 Some areas of best practice apply in most situations, but either cannot be applied or would be misleading if applied in others. In these cases, the guidance may specify a 'comply or explain' approach. This means that entities applying this Manual must either follow the stated best practice or else provide a full explanation in their report for their preferred alternative. It is expected that a reporting entity would not provide a 'comply or explain' disclosure only in exceptional circumstances. The comply or explain approach should only be taken where specified in the guidance, and never applied in place of a mandatory requirement.
- 1.4.4 Figure 1 shows the different levels of guidance, from more to less prescriptive, and how they should be applied to develop high quality financial reports.



All requirements introduced with 'shall', or subject to audit, are mandatory. Note that audit requirements may vary for entities under different relevant authorities. For requirements that are not mandatory, the guidance states explicitly when it should be applied on a comply or explain or best practice basis.

Figure 1: levels of prescriptiveness in financial reporting guidance

1.5 The FReM review and update cycle

1.5.1 The FReM is kept under constant review. It is updated to reflect developments in relevant financial reporting standards and best practice and, where appropriate, to reflect comments received from users and preparers.

1.5.2 When amendments to the FReM are proposed, many factors will be considered when determining whether to adopt those amendments. These factors may include:

- The relevance and materiality of the information produced by the amendment to users.
- The available resources of preparers and the burden imposed by the amendment.
- Impacts on the timeliness of annual report and accounts production.
- The relevance of the amendment suggestion to the user of the accounts.
- The audit consequences of the amendment.
- The appropriate lead time required for the amendment's implementation.
- The ultimate purpose of the addition and if any other reporting method might be more suitable.

1.5.3 The authoritative version of the FReM for any given financial year will be available by the start of the financial year to which it relates. In the event of the need for mid-year updates to the FReM, they will be issued after following due process.

1.5.4 Due process includes consideration of proposed policies by the relevant authorities and consideration by FRAB.

1.5.5 FRAB meeting minutes and papers are published on gov.uk. See [Annex 5](#).

Part A: Purposes, principles, and best practice

Chapter 2 – The purposes and principles of government financial reporting

2.1 Introduction

2.1.1 This chapter sets out:

- what government financial reporting is
- what government annual reports and accounts are
- the purposes of government financial reporting
- the importance of user engagement
- the principles of government financial reporting

2.1.2 The principles in this chapter apply to all government financial reporting. The rest of the Government Financial Reporting Manual (FReM) gives full guidance on how to apply these principles to prepare government annual reports and accounts.

2.2 What is government financial reporting?

2.2.1 Every government body generates a data trail giving details of its financial activity. Filtering and combining this raw data creates useful financial information. For example, a list of every purchase made by an organisation is raw data. One way of turning it into financial information would be to combine data to make it more meaningful, such as breaking expenditure down by categories such as IT equipment, or staff training.

2.2.2 When government financial information is collected and shared, it becomes a financial report. Government financial reports can be internal or external, looking forward (as in budgets) or historical (as in accounts). Each has its own purpose and forms part of the wider landscape of government financial reporting.

2.2.3 At the heart of financial reporting in government are annual reports and accounts, which this Manual supports. However, many of the principles in this chapter could and should apply to all government financial reports.

2.3 Annual reports and accounts

2.3.1 The system of annual reports and accounts is central to financial accountability in the public sector. These reports bring together information on the financial position and activity of a government body, or (in the case of consolidated departmental accounts)

of a whole area of government across several bodies. Most financial reporting requirements in annual reports and accounts are mandatory.

- 2.3.2 A set of government annual reports and accounts includes a performance report, an accountability report and the financial statements with their associated notes.



- 2.3.3 Financial statements are prepared according to International Financial Reporting Standards (IFRSs) issued by the International Accounting Standard Board as adapted and interpreted in this Manual.

- 2.3.4 The IFRS Conceptual Framework includes two fundamental qualitative characteristics of useful financial information: relevance, and faithful representation.

- Relevant financial information can make a difference in the decisions made by users, and may have predictive value, confirmatory value, or both.
- A faithful representation is, to the maximum extent possible, complete, neutral and free from error.

Useful financial information, with both characteristics, is essential for the financial statements (and therefore the annual report and accounts) to be fair, balanced and understandable. Preparers should also consider the enhancing qualitative characteristics of comparability, verifiability, timeliness and understandability.

- 2.3.5 See [Chapter 5](#) for more on the performance report, [Chapter 6](#) for more on the accountability report, and [Chapter 7](#) for more on the financial statements.

2.4 Purposes of government financial reporting

- 2.4.1 The four main purposes of government financial reporting, as outlined by the Public Accounts and Constitutional Affairs Committee and considered as part of the [Government Financial Reporting Review](#), are:

- to maintain and ensure parliamentary control of government spending, enabling, in particular, Parliament to hold the Government accountable for its spending.
- to enable the public and researchers (both in civil society and Parliament) to understand and consider the value for money offered by public spending, so that they can make decisions about the effectiveness, efficiency and economy of particular policies or programmes.
- to provide a credible and accurate record which can be relied upon.

- to provide managers inside departments (including both ministers and civil servants) with the information they require to run the departments and their agencies efficiently and effectively.

2.4.2 All government financial reports should meet one or more of these purposes. Public sector annual reports and accounts should meet all of them. Enabling Parliament to hold the government to account (parliamentary accountability) is, however, the key purpose of government annual reports and accounts. If there is any conflict between meeting different purposes, then the needs of Parliament take precedence.

2.4.3 Parliament in the context of the FReM is defined as:

- The UK Parliament;
- the Scottish Parliament;
- the Senedd²; and
- the Northern Ireland Assembly.

2.4.4 The application of UK adopted International Accounting Standards (IAS), as adapted and interpreted for the public sector context (see [Chapter 8](#)) with additional disclosure when necessary, is presumed to result in financial statements that meet the needs of Parliament and other users, and to give a true and fair view (see [Chapter 4](#)).

2.5 User engagement

2.5.1 Each of the four purposes of government financial reporting reflects the needs of a different group of users. The best way of assessing whether a financial report is fulfilling its purpose, therefore, is to ask those users for feedback.

2.5.2 Another benefit of engaging directly with users is to raise the profile of reports and help them reach a wider audience.

2.5.3 Those preparing government financial reports can increase user engagement both passively, by making their reports more accessible, and actively, by reaching out directly to known users.

2.5.4 The primary user of government annual reports and accounts is Parliament. Select committees review consolidated departmental annual reports and accounts, and the Public Accounts Committee (PAC) holds hearings on the Whole of Government Accounts.

2.5.5 Those preparing annual reports and accounts should actively engage with their users. For example, preparers at the departmental level should seek feedback from the relevant select committee. Having conversations about the nature and use of the annual report and accounts will help preparers meet the needs of Parliament.

² Under the Senedd and Elections (Wales) Act 2020 the National Assembly for Wales is now called Senedd Cymru of the Welsh Parliament, known as ‘the Senedd’.

2.6 Principles for government financial reporting

- 2.6.1** Every government body is unique, and no two government reports have exactly the same story to tell, as outlined in the [Simplifying and Streamlining report](#) and the [Government Financial Reporting Review](#). There are, however, some fundamental principles that help entities tell their unique story.
- 2.6.2** Many aspects of government annual reports and accounts are long established in law, precedent, and best practice. The flexible nature of the annual report, however, means that new disclosures may be suggested at any time.
- 2.6.3** Accounting Officers across the public sector take ultimate responsibility for what is included in the annual report and accounts. Where there is no existing guidance, it is the Accounting Officer who should be comfortable with any choices made in selecting new information to be published, and in deciding how to publish it.

Choosing what to publish and how to publish it

- 2.6.4** Figures 2 and 3 give a two-part decision tree to support those considering whether to publish additional information in a report. The set of questions in Figure 2 help determine whether information should be published, and those in Figure 3 help determine whether a given report is the right place for that publication.

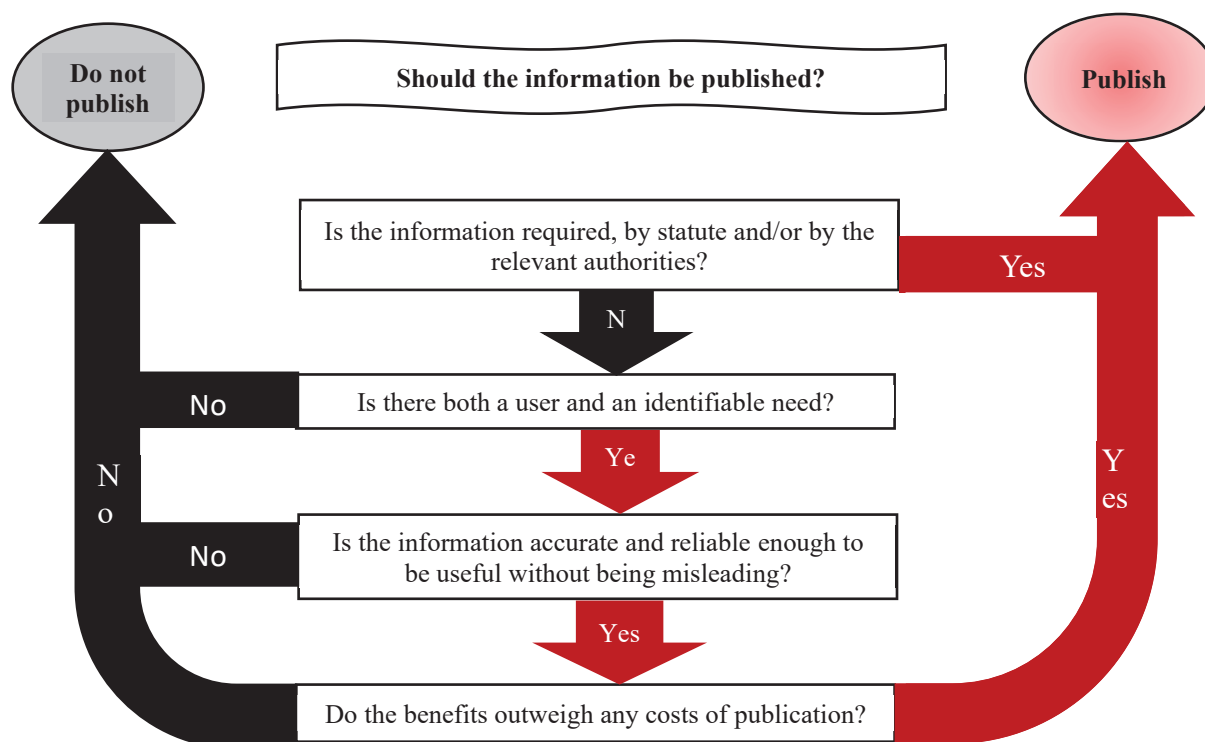


Figure 2: disclosure decision tree part 1

- 2.6.5** When deciding whether to include information in the Performance Report and Accountability Report, entities must consider whether the information is material to the primary users of the annual report and accounts and determine the appropriate level of information to disclose in relation to the given matter. As noted in [section 2.5](#) above, the primary users of government annual reports and accounts is Parliament.

- 2.6.6** Information is material if its omission or misrepresentation could reasonably be expected to influence the decisions primary users take on the basis of the annual report as a whole. As a general principle entities should disclose material financial and non-financial information in the annual report and accounts that is necessary for the understanding of the performance and accountability of the entity irrespective of whether there is an explicit disclosure requirement in statute or in this Manual.
- 2.6.7** Due to the nature of the information contained in the Performance Report and Accountability Report, qualitative factors will often have a greater influence on what is material in the context of these reports, particularly in relation to non-financial information.
- 2.6.8** Entities may consider the following questions when deciding whether information is material:
- What types of information are likely to influence the decisions of the primary users of the annual report and accounts?
 - For any given matter, what is the appropriate context for assessing materiality?
 - When do non-financial issues become qualitatively material?⁶
- 2.6.9** Unless explicitly allowed, the concept of materiality cannot be applied to disclosures in the Performance Report and Accountability Report that are required:
- in this Manual;
 - by law or regulation; or
 - promulgated by HM Treasury through PES papers.
- The use of terms such as ‘to the extent necessary for an understanding of’ or ‘principal’ mean materiality judgements can be made to disclosure requirements.
- 2.6.10** For example, **section 6.5** of this Manual sets out the minimum disclosure requirements for the Staff Report to be included by all entities applying this Manual. Materiality cannot be applied to these requirements and must be included by all entities. On the other hand, para **5.3.3** requires a summary of the principal risks faced by the entity- the use of the term ‘principal’ means the entity can apply materiality judgements to determine what risks are material to understanding the performance of the entity.
- 2.6.11** As per **Figure 2** above, there are exceptional cases where information is not accurate or reliable and should not be reported. Where relevant, the governance statement should acknowledge this and identify the steps that are being taken to improve data collection and disclosure, as well when reliable data will be made available.

How you present what you publish

⁶ ICAEW publication: <https://www.icaew.com/-/media/corporate/archive/files/technical/audit-and-assurance/assurance/milestones/milestone-4.ashx?la=en>

- 2.6.12** Transparency, and therefore accountability, depends not just on how much data is published but on how it is turned into information that readers can understand. Making reports longer can make them unreadable and obscure information which is material to the primary users of the accounts. Too much information can be difficult to absorb, and as unhelpful or misleading as too little information would be.
- 2.6.13** Though an annual report contains information which has differing objectives, entities should aim to present the annual report as a cohesive document and link related information together. Where information relevant in one part of the annual report and accounts is included elsewhere in the annual report and accounts, entities should use cross-refencing and avoid duplicating information. Where cross referencing is used, the entity may wish to explain the nature of the relationship or interdependency, rather than just highlighting the existence of the relationship or interdependency.
- 2.6.14** The annual report should highlight and explain linkages between pieces of information presented within the annual report and accounts. While each component of the annual report is independently useful, more valuable insight can be provided where linkages between information in the annual report and accounts is explained.

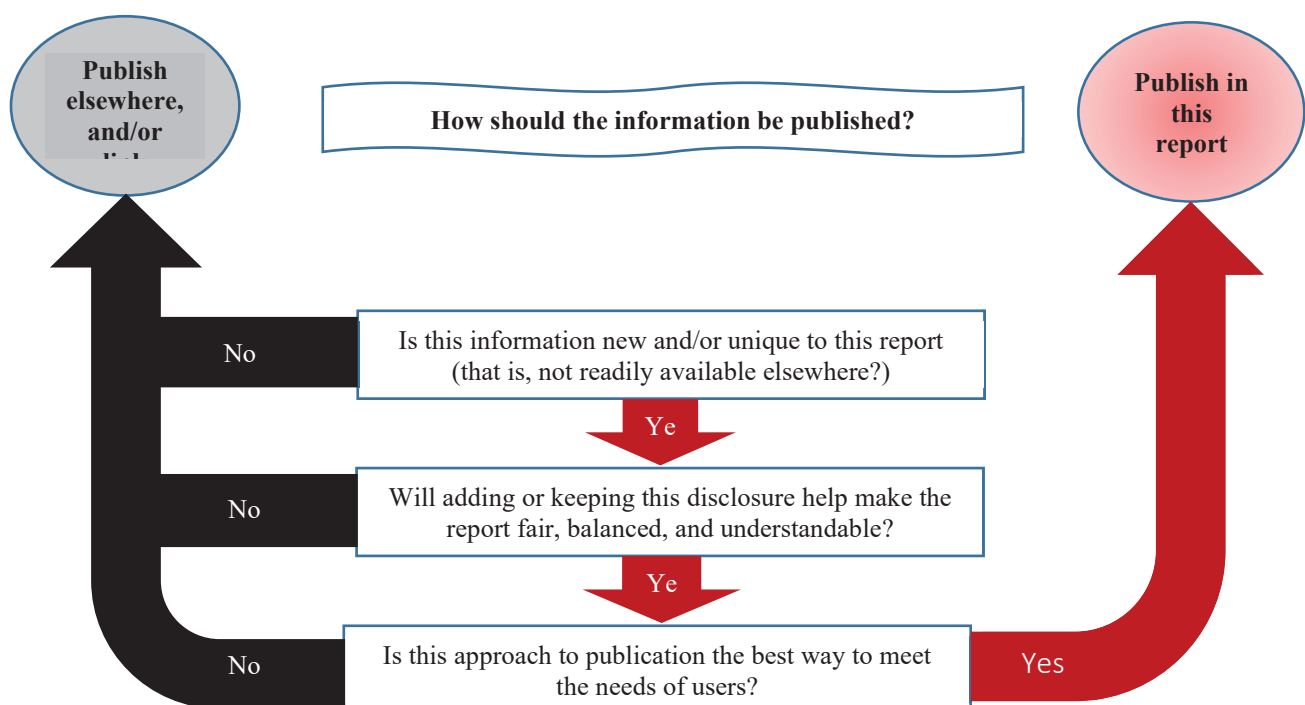


Figure 3: disclosure decision tree part 2
Balanced reporting

- 2.6.15** Government annual reports should be trustworthy and transparent. The Accounting Officer is responsible for ensuring that, taken as a whole, they are fair, balanced, and

understandable. A financial report that only tells only the good news may undermine readers' trust, even if what is reported is accurate.

2.6.16 Two useful questions to help those preparing annual reports to assess them for balance are:

- Is this report complete? That is, does it refer to everything that is relevant?
- Does this report put the information it contains into full context?

2.6.17 Chapter 3 of this Manual provides more guidance on best practice in narrative reporting. Chapter 6 provides more guidance on the responsibilities of the Accounting Officer in respect of the annual report and accounts.

Balancing cost and usefulness in reporting

2.6.18 Every disclosure in a set of annual reports and accounts comes with a cost. Relevant authorities consider the cost of reporting when interpreting or adapting reporting standards and developing guidance. All government bodies have a duty to use public resources well, and Accounting Officers should therefore also consider value for money when making the judgements about financial reporting that fall into their remit.

2.6.19 However, reporting entities are not permitted to disregard mandatory reporting requirements due to value for money concerns. Instead, any such concerns should be raised with the appropriate relevant authority.

2.6.20 In rare circumstances, if cost is the reason given for not following best practice in a comply or explain scenario, the explanation should include enough details to allow a user to understand why best practice, in that instance, would not give value for money.

Chapter 3 – Best practice in narrative reporting

3.1 Introduction

- 3.1.1** This chapter gives best practice guidance for developing narrative in government financial reporting.
- 3.1.2** Most financial reports include narrative. In the annual report and accounts, for example, the performance report and accountability report are mostly narrative, and there are extensive notes giving context to the financial statements.
- 3.1.3** This chapter discusses:
- The role of narrative reporting
 - Balance in narrative reporting
 - Context and trends
 - Design choices and graphics
 - Usability
 - Using clear English
 - Handling standardised content with care
- 3.1.4** [Annex 5](#) provides a range of links to resources for better narrative reporting.

3.2 The role of narrative reporting

- 3.2.1** [Chapter 2](#) discusses the difference between data, information, and reports. Financial information is used to tell a story, and in a report the role of the narrative is to make that story clear to readers.
- 3.2.2** The narrative elements of government financial reports are crucial for meeting the needs of users, as they provide context and describe the financial information presented. Narrative that is confusing, repetitive, or misleading can undermine the whole purpose of a report.
- 3.2.3** There is no single right way to prepare the narrative elements of a financial report. Some specific pieces of narrative may be required in a certain format. In most cases, though, mandatory guidance only states what should be included in the narrative, not how to say it. This is because every organisation, situation, and audience is different.

3.3 Balance in narrative reporting

- 3.3.1** The narrative is the part of a government financial report that shapes its message. Preparers must choose how best to tell the story to achieve a fair, balanced, and understandable report. That can be in words, through images, or through design choices in style and structure.

- 3.3.2 As Parliament is the primary user of a department's annual report and accounts, preparers should consider whether the narrative meets the needs of Parliamentarians who might read it. Meeting the requirement for an annual report and accounts is fair, balanced, and understandable is essential to meeting the needs of Parliament.
- 3.3.3 Preparers should also consider each part of the narrative in the context of the report as a whole. When a report is wide-ranging, different authors may draft different sections. The final product should stand as a whole, with the narrative in every section working together to create a single joined-up story.

3.4 Context and trends

- 3.4.1 Context is key to understanding what any information in a financial report means. Sharing trend data can help build trust in the information presented. It provides context and can give users confidence that the numbers have not been cherry picked to the benefit of the entity preparing the report.
- 3.4.2 Showing one prior year comparison helps, but it is best practice to present several years of data. Five years of comparison is a good target for narrative reporting that will make the trend clear. Information may be added year-on-year as it becomes available.
- 3.4.3 Preparers of annual reports and accounts have a comply or explain requirement to report on trend data in the performance analysis section as set out in section 5.4 of this Manual. Data trends can also be shared in graphs or tables, or in a footnote, or with a link to another part of a report.
- 3.4.4 Clear and full explanations can help the user to make connections and understand conclusions. Adding context with both narrative and numbers gives a user the best possible support to understand the story set out in a report.
- 3.4.5 Information should be specific to the entity- the inclusion of boilerplate information on its own is of limited use to users of the annual report and accounts.¹²

3.5 Design choices and graphics

- 3.5.1 The layout and design choices influence how a reader understands a financial report. For example, it is likely that the reader will assume the first item in a list is the most important.
- 3.5.2 Preparers can use design choices to direct a reader's attention, to put information in context, or to make things easier to grasp. For example, headings and subsections can break up a report and show how one point relates to another.
- 3.5.3 Graphics are powerful tools for sharing concepts at a glance. They work best when they:
 - (a) serve a clear purpose
 - (b) show relationships that are more difficult to describe in words
 - (c) are properly labelled
 - (d) are supported by sufficient narrative

¹² Adapted from para 6.16 of [this](#) document from the FRC.

- 3.5.4 Graphics are also more accessible when they rely on shape and layout to tell a story.
- 3.5.5 Account preparers may find the following guide to data visualisations- issued by the ONS- useful: <https://gss.civilservice.gov.uk/policy-store/introduction-to-data-visualisation/#section-1>
- 3.5.6 Graphics, and other design choices, can sometimes be misleading. Preparers should consider possible alternative presentation and be careful that the narrative in their annual reports and accounts conveys the intended message.
- 3.5.7 Contrasting colours may appear differently to different readers, or on different screens.
- 3.5.8 When deciding on graphics and other design choices, entities may also wish to consider whether they make the annual report and accounts accessible. For example, would a certain design choice make the annual report and accounts less accessible to individuals with visual impairments?
- 3.5.9 Guidance on accessible communication can be found here: <https://www.gov.uk/government/publications/inclusive-communication/accessible-communication-formats#accessible-print-publications>

3.6 Usability

- 3.6.1 Many users of government financial reports will first access them online. This means that the landing page can be integral in influencing the user's experience of the report.
- 3.6.2 The format of the report also has implications for users. Search engines will pick up key words from web pages but will only read the title of a pdf report. Spreadsheet formats are easier for users who want to use tables of data, but do not include much narrative.
- 3.6.3 Many users may be looking for specific information. The easier it is to navigate across a report, the less time they will have to spend searching. Ways to improve reader navigation include:
 - (a) informative chapter or section headings
 - (b) a clear integrated structure and contents list
 - (c) concise summaries of key points
 - (d) the use of internal links throughout a report
- 3.6.4 Preparers can take practical steps to help users find the information they are looking for by:
 - (a) adding text to the landing page to help search engines find the report
 - (b) sharing transparency data in spreadsheet format such as Excel or the more flexible .CSV format
 - (c) when one report relates to another, giving a link between landing pages
 - (d) designing the structure and internal links in a report

3.7 Using clear English

- 3.7.1 Clear and simple language makes reports easier for a wide range of people to read. Even when the subject of a report is complicated, using clear English makes the narrative easier to read. Some useful goals are:
 - (a) keep sentences short, with an average length of 15 to 20 words

- (b) avoid acronyms
- (c) where possible, use active verbs
- (d) excessive use of jargon should be avoided
- (e) where industry-specific terms are necessary for clear communication, they should be clearly defined and used consistently¹³

3.7.2 These are guidelines rather than rules. Preparers should use their judgement, informed on an ongoing basis by feedback from those who use their reports.

3.8 Handling standardised content with care

3.8.1 Many people drafting narrative for financial reports start with relevant examples, such as last year's report. This can be helpful but can also lead to problems.

3.8.2 Text copied from one place to another can grow less readable with each transfer to a new context. Over time, large sections of repeated text can be off-putting to users, making reports unwieldy so caution must be taken. At the same time, it should be recognised that there are benefits in maintaining a degree of consistency year-to-year for comparability and familiarity for the users of the accounts. There is therefore a need to strike a balance in the way that information is reported in annual reports and accounts.

3.8.3 To avoid repeating unnecessary text, preparers of narrative reporting should reconsider every piece of text before reusing it:

- Does it meet the needs of the report's primary users?
- Does it fit with the rest of the report?
- Does it still reflect best practice, or could it be revised for clarity in its new context?

3.8.4 Some standardised definitions and descriptions are mandated by guidance to ensure that reports are consistent across government. Relevant authorities should keep standardised wording to a minimum and review it on an ongoing basis.

Part B: Form and content of the annual report and accounts

Chapter 4 - The annual report and accounts

4.1 Introduction

- 4.1.1 This chapter gives an overview of the required format and content of the annual reports and accounts for entities covered by the requirements of this Manual.
- 4.1.2 The exceptions to the entities required to apply this format are pension schemes (see [Chapter 12](#)), and reportable activities.
- 4.1.3 Reportable activities is a collective term for funds, flows of income and expenditure, and any other accounts that are not entities, but have their own accounts directions, are prepared on an accruals basis, and are consolidated into the Whole of Government Accounts. The FReM applies directly to reportable activities in most respects, but their format, as set out in their accounts direction, may differ from the guidance in this chapter.

Structure of public sector annual reports and accounts

- 4.1.4 The annual report and accounts comprise:
 - a) The performance report, discussed in [Chapter 5](#).
 - b) The accountability report, including (where relevant) the Statement of Outturn against Parliamentary Supply (SOPS), discussed in [Chapter 6](#).
 - c) The financial statements, discussed in [Chapter 7](#).
- 4.1.5 Reporting entities must prepare and publish an annual report and accounts as a single document unless the relevant authorities have specifically agreed otherwise.
- 4.1.6 Illustrative financial statements are provided on the [FReM section of the gov.uk](#) website.

4.2 Accounting principles for government annual reports and accounts

- 4.2.1 The Treasury, according to [Managing Public Money](#) 1.4.3:

“sets the standards to which central government organisations publish annual reports and accounts in the Financial Reporting Manual (FReM). This adapts International Financial Reporting Standards (IFRS) to take account of the public sector context”
- 4.2.2 The IFRS Conceptual Framework 2018 sets out the principles that underlie general purpose financial reporting under IFRS Standards.
- 4.2.3 Applying IFRS Standards to government annual reports and accounts ensures that they are prepared according to internationally recognised standards of accounting

excellence. This chapter gives a high-level overview of the principles of applying IFRS Standards and general best practice in accounting to achieve the four purposes of government financial reporting set out in FReM paragraph [2.4.1](#).

- 4.2.4** This edition of the FReM applies UK adopted IFRS Standards, in effect for accounting periods commencing on or after 1 January 2024¹⁴.

Generally Accepted Accounting Practice (GAAP)

- 4.2.5** The accounting policies contained in the FReM follow generally accepted accounting practice (GAAP) as adapted and interpreted for the public sector context. Although the term 'GAAP' has no statutory or regulatory authority, for the purposes of the FReM, GAAP is taken to be:

- a) the accounting and disclosure requirements of the Companies Act 2006 (the Companies Act)
- b) IFRS Standards and Interpretations, and other related material, including:
 - i. UK-endorsed IFRS (IAS and IFRS Standards and IFRIC Interpretations) as adapted or interpreted for the public sector context by this Manual
 - ii. the Conceptual Framework for Financial Reporting
 - iii. the Basis for Conclusions relating to IFRS Standards and IFRIC Interpretations
 - iv. Other pronouncements (for example, educational material) issued or published by the International Accounting Standards Board
- c) reporting in accordance with the appropriate sectoral manual or direction from its relevant authority e.g. Statement of Recommended Practice (SORP) for Charities (see [section 1.2](#) for more detail on applicability)

- 4.2.6** These requirements and standards should be interpreted as necessary in the light of the body of accumulated knowledge built up over time and shared in textbooks, technical journals and research papers as examples.

Parliamentary accountability and regularity

- 4.2.7** In addition to the general principles underlying GAAP, reporting entities and reportable activities covered by the requirements of this Manual need to apply two additional principles – parliamentary accountability and regularity. These principles are explained in the context of the relevant authorities in [Managing Public Money](#).

Historical cost convention

- 4.2.8** Financial statements should be prepared under the historical cost convention, modified by the revaluation of certain assets and liabilities as determined by the relevant accounting standards, and subject to the interpretations and adaptations of those standards in this Manual.

A true and fair view

- 4.2.9** All financial statements prepared in accordance with the FReM (except accounts prepared on a cash basis such as the National Insurance Fund cash accounts and parts of the Consolidated Fund accounts) should give a true and fair view of the state of

¹⁴ Early application of UK adopted IFRS before the effective date is permitted with the consent of the relevant authority

affairs of the reporting entity or reportable activity at the end of the financial year and of the results for the year.

- 4.2.10** The application of UK adopted IAS, as adapted and interpreted for the public sector context (see [Chapter 8](#)) with additional disclosure when necessary, is presumed to result in financial statements that give a true and fair view.
- 4.2.11** In extremely rare circumstances, an entity may conclude that reporting in compliance with the FReM (or with financial reporting standards as interpreted by the FReM) would be so misleading that it would prevent the financial statements (and therefore the annual report and accounts) from giving a true and fair view. In that situation:
- a) The entity should follow the principles set out at paragraphs 20-24 of IAS 1, and depart from the FReM requirements
 - b) Any material departure from the FReM should be discussed in the first instance with the relevant authority (through sponsoring bodies where appropriate)
 - c) The details of any departure, the reasons for it and its effects should be disclosed in the financial statements
 - d) The Accounting Officer, or other person who is required to approve the accounts, should not provide approval unless they are satisfied that the accounts give a true and fair view of the assets, liabilities, financial position and net income or expenditure of the entity, and where relevant, of the group

Conceptual Framework for Financial Reporting

- 4.2.12** The primary users of financial reporting identified in the IFRS Conceptual Framework are existing and potential investors, lenders and other creditors. By contrast, Parliament is the primary user of government annual reports and accounts, which enable Parliament to hold the government to account¹⁵.
- 4.2.13** Parliament is defined in [2.4.3](#). Other users, as discussed in [Chapter 2](#), include the public, researchers, relevant authorities, creditors, suppliers, and managers inside departments.
- 4.2.14** Preparers of financial statements should have regard to:
- a) the underlying assumption that financial statements shall be prepared on a going concern basis
 - b) the qualitative characteristics of financial statements
 - c) the elements of financial statements
 - d) the recognition of the elements of financial statements
 - e) the measurement of the elements of financial statements
- 4.2.15** Most of the entities covered by the requirements of this Manual will prepare general purpose financial statements that are sufficient for the needs of their primary users. However, where departments are required by the relevant legislation to demonstrate accountability to Parliament, they should prepare a statement on parliamentary accountability, which can be regarded as a special purpose financial report.
- 4.2.16** The Conceptual Framework provides the concepts and guidance that underpin the decisions the IASB makes when developing IFRS standards. The Conceptual

¹⁵ 3.6 [The government financial reporting review](#) (HM Treasury, 2019).

Framework is not a standard and does not override any standard or any requirement in a standard.

- 4.2.17 IAS 8 paragraphs 10-12 set out requirements and guidance that applies for the purposes of developing an accounting policy in the absence of IFRS Standards that specifically applies to a transaction, other event or condition. Entities in this situation should discuss this with their relevant authority at the earliest opportunity.

Applying IFRS Standards

- 4.2.18 Preparers of financial statements should consider materiality when applying IFRS Standards as interpreted and adapted in the FReM for the public sector:

- a) in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, accounting policies set out in IFRSs need not be applied when the effect of applying them is immaterial
- b) in accordance with IAS 1 *Presentation of Financial Statements*, a specific disclosure requirement in a Standard or in an Interpretation need not be satisfied if the information is not material (disclosures should be limited to those necessary to give a true and fair view)¹⁶
- c) preparers do not need to develop accounting policies, or provide disclosure notes, relating to accounting standards that do not apply to their circumstances or are not material
- d) Additional commentary on matters that are not material may be provided if it is helpful to the user, whether in the accounting policy note or next to an individual disclosure note
- e) Entities may apply new IFRSs before the effective date, with the consent of the relevant authority

- 4.2.19 The way entities are required to implement in full, adapt or interpret the various IASs and IFRSs are detailed in [chapter 8](#).

Accounting policies and budgetary controls

- 4.2.20 Reporting entities that comply with the FReM also prepare budgets on a resource (accruals) basis and are subject to control by the relevant authorities. Entities should refer to the Consolidated Budgeting Guidance published by HM Treasury.
- 4.2.21 Accounting policies are generally common to both accounting and budgeting. An overview of the main differences between budgets and accounts is included in [Annex 3](#).
- 4.2.22 Entities should select the accounting policies that best reflect a true and fair view, but should ensure that the budgeting implications and impact on Estimates are well understood.
- 4.2.23 Preparers of financial statements need to consult with the relevant authority (through sponsoring bodies where appropriate) before changing significant accounting policies and estimation techniques where it appears that there could be a potential impact on budgets and on the National Accounts.
- 4.2.24 Where preparers consider it necessary to adjust retrospectively for changes in accounting policies or material errors, they should first contact the relevant authority

¹⁶ In line with IFRS Practice Statement 2: *Making Materiality Judgements* issued by the IASB September 2017

(through sponsoring bodies where appropriate) to ensure that the budgeting and Estimates implications have been properly considered.

- 4.2.25 Departments are required to report outturn against Estimate in the Statement of Outturn against Parliamentary Supply, which forms part of their accountability report. See [Chapter 6](#).

4.3 Consolidation and accounting boundaries

- 4.3.1 Entities preparing financial statements within the scope of this Manual shall prepare annual reports and consolidated financial statements as follows:
- a) Departments shall prepare annual reports and consolidated financial statements (as defined in [Chapter 5](#) of this Manual) covering all entities designated for consolidation. Accounting policies should be aligned on consolidation where alternative GAAP is applied, such as where there are subsidiaries that are charities.
 - b) Executive agencies shall prepare annual reports and consolidated financial statements in accordance with the requirements of IFRS 10, IFRS 11, IFRS 12, IAS 27 and IAS 28, 'the Group Accounting Standards' in so far as those subsidiaries and investments are within the controlling department's consolidation boundary
 - c) Arm's length bodies shall prepare consolidated financial statements in accordance with the requirements of Group Accounting Standards, without adaptation and interpretation

Designation

- 4.3.2 The departmental boundary is similar to the concept of a group under generally accepted accounting practice but is based on control criteria used by the Office for National Statistics to determine the sector classification of the relevant sponsored bodies.
- 4.3.3 Except where legislation requires otherwise, departments will account for subsidiary undertakings in accordance with the Group Accounting Standards 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.
- 4.3.4 In accordance with the principles set out in Managing Public Money, executive non-departmental and similar public bodies classified to central government by the ONS will normally be controlled for accountability purposes by only one department and the designation order will require that they are consolidated by the department.
- 4.3.5 Where a department has an investment in another public sector entity that has not been designated for consolidation, it should be reported following the requirements of IFRS 9. This includes all interests in bodies classified as public corporations by the ONS and investments in public sector bodies which would otherwise meet the definition of an associate or joint venture. Entities should refer to the adaptations and interpretations to the group accounting standards set out in [section 8.2](#) of this manual for further guidance.
- 4.3.6 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. Where a subsidiary has:

- An accounting reference date more than 3 months different to the accounting reference date of the department; and
- The subsidiary is material to the group;

the relevant authority will consider the treatment of the non-coterminous reference dates. In other cases the entity shall approach the consolidation of subsidiaries with non-coterminous year ends in line with IFRS 10 paras B92-B93.

4.4 Reporting requirements beyond central government departments

Scottish, Welsh, and Northern Irish spending bodies

- 4.4.1** The accounts to be published by spending bodies accountable to the Scottish Parliament will follow the format agreed between Scottish Ministers and the Public Audit Committee of the Scottish Parliament. The format of those accounts will be based on the principles, but not the detail, set out in this Manual. This means the accounts of these bodies will meet disclosure requirements which originate in accounting standards or Companies Act application as set out in the FReM. These accounts will also meet relevant requirements in Scottish legislation and in the Scottish Public Finance Manual and in other relevant guidance issued by the Scottish Ministers.
- 4.4.2** The Welsh Government will determine the format and content of the performance report for its annual report and accounts. The performance report will reflect the wider reporting landscape in Wales. The Welsh Government will also issue guidance to its sponsored bodies and subsidiary organisations on the extent to which these organisations should comply with the FReM.
- 4.4.3** The Northern Ireland Executive determines the appropriate level of reporting for the performance report for each organisation in Northern Ireland.

Executive agencies and trading funds

- 4.4.4** Trading funds are established under government trading legislation to engender a market-based approach to managing activities. They might also be executive agencies or departments in their own right.
- 4.4.5** In preparing their financial statements, trading funds should follow the requirements of applicable accounting standards but should also follow the principles set out in this Manual and provide the additional disclosures required by the Manual where these go beyond the requirements of the applicable accounting standards.
- 4.4.6** For trading funds, the annual statement of accounts is laid in Parliament by the Comptroller and Auditor General under section 4(6)(b) of the [1973 Act](#) and [article 8\(6\)](#) of the Financial Provisions (Northern Ireland) Order 1993. A report is sent to the responsible Minister under section 4(6A)(b) of that Act, but that report is not laid in Parliament. Instead it is published by that minister along with the annual statement of accounts in such manner as the Treasury may require. For executive agencies which aren't trading funds, accounts will be prepared under [section 7](#) of the Government

Resources and Accounts Act 2000 ('the GRAA') if the Treasury issues a direction under that section requiring their preparation by the relevant government department.

Other arm's length bodies

- 4.4.7 Within the context of this manual, arm's length bodies refers to non-departmental public bodies, trading funds, and other entities designated to the departmental group, excluding the core department and its agencies.
- 4.4.8 Arm's length bodies that are not incorporated as companies can use an annual report to meet a statutory obligation to prepare a separate report.
- 4.4.9 Where there is no statutory requirement for the preparation of a separate report, arm's length bodies will prepare an annual report and accounts.

Arm's length bodies which are companies

- 4.4.10 Arm's length bodies incorporated as companies should comply with the requirements of the Companies Act 2006 in full, going further if necessary, to follow the guidance or principles set out in this Manual.
- 4.4.11 Sections [381 to 384](#) of the Companies Act 2006 define the qualifying criteria for the small companies' regime. Entities meeting these criteria can apply the small companies' regime only if approved by their relevant authority.
- 4.4.12 A reporting entity that wishes to publish a document additional to its annual report and accounts that contains supplementary material including summary financial statements should comply with the requirements of sections [426 and 426A](#) of the Companies Act 2006. The summary data must not be published in advance of the full annual report and accounts being laid before Parliament as to do so would be a breach of parliamentary privilege.
- 4.4.13 If, due to exceptional circumstances, there is a conflict between the requirements of the Companies Act and the FReM, the Companies Act takes precedence for those arm's length bodies that are companies. Companies should discuss the situation in the first instance with their sponsoring department and relevant authority.

Arm's length bodies which are charities

- 4.4.14 Arm's length bodies which are charities should follow the requirements of the Charities' SORP and regulations made under charities legislation. If they are both registered companies and charities, they must comply with the Companies Act 2006 and the Charities SORP. They should also go further if necessary, to follow the guidance or principles set out in this Manual.
- 4.4.15 There is a strong presumption that compliance with the SORP is necessary for charities' accounts to give a true and fair view. Charities that are exempt from the requirements of the Charities Act should comply with the recommendations of the SORP wherever possible, unless they or their sponsor department feel that the resulting financial statements will not provide the information needed for monitoring purposes. Any departure from the SORP should be disclosed on a comply or explain basis.
- 4.4.16 Where a sponsoring department considers that the Statement of Financial Activities (SOFA) prepared by its charitable arm's length body does not provide sufficient information to monitor and control the arm's length body or to allow appropriate comparison with its non-charitable arm's length bodies, it may direct the charitable

arm's length body to supplement the SOFA with a summarised income and expenditure account.

Reportable activities

- 4.4.17** Preparers of the financial statements of reportable activities should apply the guidance in this Manual only to the extent that it is relevant to those activities and in the light of any statutory requirements or other pronouncements made by the relevant authorities.

4.5 Presentation to Parliament and publication

- 4.5.1** After the annual report and accounts have been certified by the Comptroller and Auditor General (or other appointed auditor) there is an expectation that they will not be changed prior to laying in Parliament. Where an entity wishes to make any change to a certified annual report and account prior to laying in Parliament, that entity must first discuss with their external audit team.
- 4.5.2** HM Treasury will lay before the House of Commons the resource accounts of departments (including agencies that are whole departments) under section 6(4) of the Government Resources and Accounts Act 2000. They will then be published by the entity.
- 4.5.3** For executive agencies that are not departments, the Treasury will lay their annual reports and accounts before the House of Commons under section 7(3)(c) of the Government Resources and Accounts Act 2000. They will then be published by the entity.
- 4.5.4** The Auditor General for Wales will lay before the Senedd the resource accounts of the Welsh Ministers (Welsh Government) under section 131(6) of the Government of Wales Act 2006. The Auditor General for Wales will lay the resource accounts of Estyn (Her Majesty's Chief Inspector of Schools in Wales) under Schedule 6 section 6(2)(b) of the Government of Wales Act 1998. They will then be published by the entity.
- 4.5.5** The Department of Finance will lay before the Northern Ireland Assembly the resource accounts of Northern Ireland departments (including agencies which are whole departments) under section 10(4) of the Government Resources and Accounts Act (Northern Ireland) 2001. They will then be published.
- 4.5.6** In the case of Northern Ireland agencies which are not whole departments, the parent department will lay before the Northern Ireland Assembly the annual report and accounts of those agencies under section 11(3)(c) of the Government Resources and Accounts Act (Northern Ireland) 2001. They will then be published.
- 4.5.7** Scottish Ministers will lay before Parliament accounts prepared under the Public Finance and Accountability (Scotland) Act 2000 under section 22(5) of that Act. They will then be published.
- 4.5.8** The procedure for publishing and laying the accounts of ALBs varies according to the provisions of the governing statute. Where the legislation requires the accounts to be laid before Parliament or where accounts are placed in the library of the House of Commons (and perhaps also the House of Lords), the accounts should be published thereafter.
- 4.5.9** The procedure for publishing and laying the accounts of ALBs in Northern Ireland varies according to the provisions of the incorporating statute. If responsibility does

not lie with the Comptroller and Auditor General, the ALB is normally required to submit the audited accounts to its sponsor department, who will arrange to lay them before the Northern Ireland Assembly. A copy should be placed in the library of the Northern Ireland Assembly.

- 4.5.10 The Comptroller and Auditor General will lay before Parliament the annual reports and accounts of trading funds under section 4(6) (b) of the Government Trading Funds Act 1973. They will then be published.
- 4.5.11 The Comptroller and Auditor General will lay before the Northern Ireland Assembly the annual reports and accounts of trading funds in Northern Ireland under article 8(6)(b) of the Financial Provisions (Northern Ireland) Order 1993. The annual reports and accounts will then be published.

Chapter 5 – The performance report

5.1 Purpose of the performance report

5.1.1 The purpose of the performance report is to provide the user with an understanding of the entity and how it has performed. It is a vital resource for Parliament and the public, enabling them to hold the government to account, and it should draw together information from across the annual report and accounts to provide a holistic view of performance. Given its importance, preparers must dedicate sufficient time to its preparation and be mindful of applying the principles, best practice and guidance laid out below and in Chapters [2](#) and [3](#).

5.1.2 A performance report should cover, but is not limited to:



It should be straightforward and accessible, so that it can be easily understood by a lay user and contain cross-references to other parts of the annual report and accounts where relevant and appropriate.

5.1.3 The performance report is required to have two sections: a 'performance overview' and a 'performance analysis'. The performance overview is a short summary of the full story of an organisation and its performance over the period covered by the report. The performance analysis provides a detailed view.

5.2 Principles for the performance report

- 5.2.1** When compiling the performance report, preparers should meet the objectives and principles of government reporting detailed in [Chapter 2](#). Specifically, performance reporting must be fair, balanced, and understandable. It must tell the full story of an organisation, including both positive and negative aspects of performance, so users can have confidence in any judgements and so it is clear that reporting is trustworthy and transparent.
- 5.2.2** In addition, preparers should follow best practice in narrative reporting, as detailed in [Chapter 3](#). Graphical representation and visual aids should be used where possible to aid usability. For example, a Red/Amber/Green (RAG) rating may add clarity when reporting against indicators.
- 5.2.3** Further principles to follow when compiling the performance report are as follows:
- performance reporting should reflect the structure and activity of the organisation, and the information used by internal decision makers, broken down as appropriate by priority outcome (as agreed during the most recent spending review), project, policy, and/or programme.
 - preparers should include trend data to give context to statistics and other metrics, including explanations of the information provided.
 - where practical, preparers should detail when information they present has been audited or not, cross referencing users to where audited information originates in the financial statements or Statement of Outturn against Parliamentary Supply (SOPS).
- 5.2.4** Performance reporting requirements are based on best practice, specific public sector needs, and Strategic Report requirements as set out in the Companies Act 2006 ([Chapter 4A](#) of Part 15).
- 5.2.5** As noted in [Chapter 4](#), arm's length bodies which are companies or charities should follow the requirements of the Companies Act 2006, charity legislation or SORPs respectively, providing additional disclosures as required by this Manual where these go beyond legislation or guidance.
- 5.2.6** Sections 5.3 and 5.4 below for departments includes a requirement to report performance against outcomes agreed at the latest SR process. Where outcomes change during a reporting period, as in 2024/25 following the election and conclusion of the SR process, entities should ensure that their analysis covers the whole of the reporting period. This is required only to the extent the period spent pursuing an agreed set of outcomes is material.

Performance report accountability

- 5.2.7** Auditors will review the performance report for consistency with other information in the financial statements and give an opinion on this. This underlines the importance of the performance report reflecting the position outlined by the financial statements, which, as detailed in [5.1.1](#) above, is key for users.
- 5.2.8** The performance report shall be signed and dated by the Accounting Officer or Chief Executive.

5.3 Performance overview

5.3.1 The purpose of the performance overview is to give the user a short (no more than 10 to 15 pages) summary that provides them with sufficient information to understand:

- a) the organisation and its purpose.
- b) the outcomes and/ or objectives it is aiming to achieve and performance against delivering those outcomes and/ or objectives.
- c) the impact of and management of key risks.

The performance overview should be enough for the lay user to have no need to look further into the rest of the annual report and accounts, unless they were interested in further detail or had specific accountability or decision-making needs.

5.3.2 The performance overview should not simply be a duplication of the performance analysis section. The performance overview should be a summary to the more detailed appraisal provided in the performance analysis section (which includes more detail on performance against a department's outcomes (as agreed at the most recent spending review (SR) process), goals and strategic objectives, the risks an entity faces and a financial review).

5.3.3 Entities have a degree of flexibility to tell the story of their performance in the manner that best suits the needs of the user. As a minimum, the performance overview shall include:

- a) A short summary explaining the purpose of the overview section.
- b) A statement from the entity's lead minister or chief executive providing their perspective on the performance of the organisation over the period.
- c) A statement of the purpose and activities of the organisation, including a brief description of the business model and environment.
- d) A brief description or diagram detailing organisational structure, if not already included as a result of the above requirements.
- e) A summary of outcomes agreed at the latest SR process, other strategic objectives or goals the organisation has been working towards, and details of relevant work taking place within the organisation to achieve said objectives.
- f) A summary performance appraisal, providing a synopsis of the performance analysis section and outlining whether a department is progressing towards achieving its outcomes (as agreed in the latest SR process), strategic objectives, and any other organisational goals. This section should provide key indicators for the outcomes and other strategic objectives, sub-objectives, other goals or work areas. These indicators should be drawn from official statistics or publicly available information and detail whether performance has met expectation or explain why performance is below expectation.
- g) A summary of the principal risks faced and how these have affected the delivery of outcomes agreed in the latest SR process, strategic objectives, or other goals, how they have changed, how they have been mitigated and any emerging risks that may affect future performance. The descriptions of the principal risks should be sufficiently specific that the reader can understand why they are important.

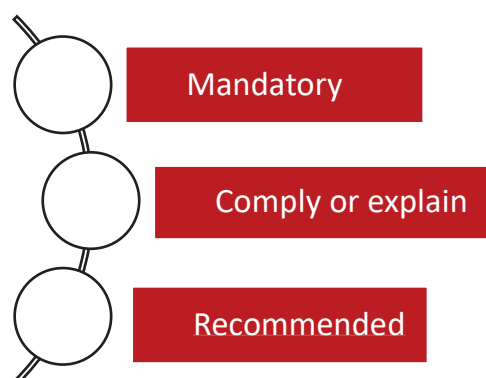
Please note, this should only serve as a summary of the further detail on risks provided in the analysis section, see 5.4.4 b) below. Cross-referencing between the discussion of risk in the performance analysis section (and risk management and internal control in the accountability report, see 6.4.8) is encouraged where relevant and appropriate.

- h) For arm's length bodies, 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, what will be financed from resources expected to be voted by Parliament in the future.

5.4 Performance analysis

- 5.4.1 The purpose of the performance analysis is for entities to provide a detailed view of their performance.
- 5.4.2 Entities should seek to tie in the performance analysis to other parts of the annual reports and accounts as relevant, for example to the Statement of Outturn against Parliamentary Supply (SOPS) and the financial statements, to provide a cohesive and consistent understanding of performance across the annual report and accounts.
- 5.4.3 The guidance on the performance analysis section is broken down as follows:

See Figure 1 and paragraph 1.4.3 in Chapter 1 on the distinction between 'mandatory' and 'comply or explain' requirements.



- 5.4.4 It is **mandatory** to include in the performance analysis:

Reporting by entities with outcomes and objectives agreed at the SR process:

- a) The performance report section of a department's annual report and accounts shows how they have performed against their outcomes agreed in the latest SR process, strategic objectives or other goals, allowing Parliament and the public to track and monitor progress and performance against them. In this section:
 - i. entities should report against their outcomes agreed at the latest SR process, strategic objectives or other goals, in a manner that they consider would best contribute to the understanding of performance and value for money. This may include both quantitative and qualitative information.
 - ii. Departments should provide outturn performance data against each of the indicators used to monitor performance against outcomes agreed

at the latest SR process, strategic objectives, or other goals with prior year comparative data (where data has been previously reported against a given outcome, strategic objective or other goal). Data for years earlier than the prior year should also be included where available and where this provides relevant context. Any financial information provided should link to the financial review (see below) and common core tables, as relevant.

- iii. entities should also note the requirement to report on sustainable development goals in 5.4.7 below.
- b) Further detail on the risk profile of the organisation, i.e. the risks it faces, how risks have affected the organisation in achieving its objectives, how they have been mitigated and how this may affect future plans and performance. This should also cover how risks have changed over time and through the period – including significant changes in risks, such as a change in the likelihood or possible impact, and new and emerging risks. How existing and new risks could affect the entity in delivering its plans and performance in future years should also be discussed.

This requirement is different to the requirement to report on risk in the overview section (5.3). The description in the overview should only serve as a summary of the detail provided in the analysis section. This requirement is also different to that included in the accountability report (6.4.8). The discussion of risk in the analysis section covers risk in relation to performance, what risks are faced and how these are mitigated against. The discussion of risk in the accountability report instead focuses on the risk management and internal control system. However, clear and effective cross-referencing between the three sections is encouraged where relevant and appropriate.

- c) Details of any non-financial information on environmental protection, social responsibility, respect for human rights, anti-corruption and anti-bribery matters and diversity, specified by law and adapted by the FReM to apply to the UK public sector.

Reporting on objectives by entities without outcomes or strategic objectives agreed at the latest SR process:

- d) These entities should agree an approach to reporting on performance with their sponsoring body and, if needed, their HM Treasury Spending Team and relevant parliamentary select committee. Otherwise, they should report on their objectives and progress made against them, using unbiased indicators of progress where these have been established. The discussion of progress against plan should incorporate qualitative and quantitative information and prior year and trend information where possible. It may be the case that preparers find it easiest to structure their performance analysis around reporting against objectives.
- e) In Northern Ireland, government departments and arm's length bodies should report on performance in the context of how they are contributing towards the achievement of outcomes, as set out in the Programme for Government (or, in the absence of devolved government, within the Northern Ireland Civil Service Outcomes Delivery Plan). Supplementary guidance will be issued for Northern Ireland.

Additional items to report on for all entities (where they are relevant to the entity):

- f) A short explanation detailing the purpose of the performance analysis section and its structure.
- g) Further detail on the structure of the organisation, unless sufficient detail has already been provided in the performance overview section (5.3) or elsewhere in the annual report. Providing additional detail at this point may be beneficial for larger or more complex departments and could potentially refer users to the structural information provided in the accounting officer system statement.
- h) If unit costs are central to decision-making or accountability for the organisation, then they should be disclosed. This disclosure should include the basis for calculation, revealing any areas of subjective judgement. Where possible, the same basis for calculation should be used across different entities and reporting periods to support meaningful comparisons.
- i) Where statistics, metrics, or other indicators are disclosed without relevant trend data or comparators, the reason for the lack of trend data should be disclosed. For example, if it is the first year that an indicator has been collected, no prior period data is available.
- j) If not already covered through the above, entities should detail performance against any further key financial indicators or measures, tying this into the broader discussion.
- k) If not otherwise covered in a trend analysis included elsewhere, entities should provide further detail on future plans, and expected future performance. In particular, anticipated changes in the structure or strategic objectives of the organisation should be noted.
- l) A summary or reference to any accountability issues or breaches outlined in the accountability report, that may be worth drawing the attention of users to (this is not intended to duplicate disclosures).
- m) A financial review, detailing financial performance. Entities should tie in a discussion of financial performance into their overall performance where possible, as financial performance is more effectively appraised against the context of an organisation's overall performance, detailing where the effective use or ineffective use of resources has contributed to meeting or failing to meet objectives.

5.4.5 For entities that produce a Statement of Outturn against Parliamentary Supply (SOPS), this financial review should include (each on a comply or explain basis):

- a) Context and an explanation of the public sector budgeting framework and the split of funds between resource, capital, AME and DEL. Diagrams may aid in providing this explanation, showing the flow of funds between different budget categories (i.e. how much is RDEL, CAME, admin, program, etc). This context is required to enable users to understand the analysis of outturn vs Estimate, that should follow, and the SOPS. Key terms should also be defined. Refer to Chapter 1 of the [Consolidated Budgeting Guidance](#) for an explanation of budgeting terms and [6.6](#) below.
- b) A summary table showing outturn compared to Estimate. This table should summarise outturn against Estimate and is not intended to be a detailed

duplication of the SOPS. A note should explain that the table ties directly to the SOPS as a key accountability statement which is audited, providing the context that entities must operate within their control limits.

- c) Commentary on outturn against Estimate variances. This should be provided to help the user understand where there has been agreed or unexpected changes in spending, when compared to the Estimate, and how that has affected performance and why. Commentary should tie to figures disclosed in the SOPS. To provide a summary understanding of variances, preparers may need to tie back to variances presented in note 1 of the SOPS.
- d) A summary budget to accounts reconciliation. This should be provided to help the user understand how the financial statements link to budget outturn in a simpler way. Please note, this disclosure is intended to summarise and make the information in SOPS 2 more relevant to lay users (for example, by presenting it graphically in a waterfall chart), it is not intended to duplicate SOPS 2.
- e) A trend analysis, showing RDEL, CDEL, RAME, CAME spend over the previous 5 years, with future projections based on Spending Review settlements (if future information is available). Supporting analysis should draw attention to patterns of spend over time, how this has impacted performance and how future projections of spend are likely to impact on future performance. A note should detail that the information in the trend analysis ties to common core tables, where further breakdowns are provided. Please note, this disclosure is intended to summarise and make the information in core tables more relevant to lay users (for example by presenting it graphically), it is not intended to duplicate the core tables.

5.4.6 The following are **best practice** recommendations:

- a) Entities that do not prepare a SOPS may still wish to follow the guidance in **5.4.4 (m)** above and consider how they can apply it to their annual report for the benefit of the user.
 - i. Following this guidance will ensure all performance analyses will have a clear and consistent structure, detailing non-financial and financial information that summarises key sections of the annual reports and accounts and details progress against organisational goals.
 - ii. While detail on the budgeting framework and outturn against Estimate will not be as relevant for entities that do not prepare SOPS, they should still consider reporting information on net funding provided through the Estimate and how they have met this, or equivalent, would be useful.
- b) Entities may wish to include, in their performance report, or signpost to publication elsewhere, disclosures on how they have promoted equality of delivery of services to different groups. These disclosures may include:

- i. How the entity has had due regard to the three aims of the public sector equality duty¹⁷ under the Equality Act 2010¹⁸, being:
 - 1. Eliminate unlawful discrimination, harassment, victimisation and any other conduct prohibited by the Act;
 - 2. Advancement of equality of opportunity between people who share a protected characteristic and those who do not share it;
 - 3. Foster good relations between people who share a protected characteristic and people who do not share it.
 - ii. Customer satisfaction scores broken down by protected groups.
 - iii. If the entity has key performance indicators (KPIs) to cover the fair treatment of different groups and have open access to services, report on performance against these KPIs.
 - iv. Explanations of what the entity is doing to promote equalities in how services are delivered and what diversity issues mean in the context of the entity.
 - 1. For example, an entity delivering a frontline service could provide data and information on the groups accessing their service. This may highlight groups who are not accessing the service as much as they could. The entity can then explain what they are doing to address inequalities in access to that service.
 - v. The entity may wish to cross-reference to separately published reports covering how they promote equality of service delivery to protected groups and/ or demonstrate how they have due regard to the public sector equality duty.
- c) Further best practice forms of reporting to include in a financial review are:
- i. an analysis of the balance sheet position year on year, detailing movements in asset or liability balances.
 - ii. detail on the type of spend incurred over the year, for example, on employees, administration, equipment or buildings.
 - iii. detail on outturn against Estimate by outcome agreed at the latest SR process, other strategic objective or other goal, although it is recognised this reporting may be difficult to produce if objectives do not align to Estimate lines and if apportioning spend to objectives is highly judgemental.

Sustainability reporting

5.4.7 The requirements in this section are **mandatory**.

5.4.8 All reporting entities must provide information on environmental matters, including the impact of the entity's business on the environment. Entities must also comply with mandatory sustainability reporting requirements, where appropriate as detailed in the remainder of this section.

¹⁷ Refer to page 4 of the following document for further guidance:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/85041/equality-duty.pdf

¹⁸ If you are unsure whether your entity is within scope of the public sector equality duty in the Equality Act 2010, refer to Part 11 and Schedule 19 of the Equality Act 2010: <https://www.legislation.gov.uk/ukpga/2010/15/contents>

- 5.4.9 All departments and certain ALBs (above 500 full-time equivalents or £500m in operating income/funding received) must comply with the [Task Force on Climate-related Financial Disclosures \(TCFD\) -aligned disclosure application guidance](#). Other central government bodies should consult the guidance to determine whether other factors (e.g., based on operating industry, industrial grouping, policy area or regulatory remit, etc.) mean they should strongly consider making TCFD-aligned disclosure, and where appropriate comply with the TCFD Supplementary Guidance. Other central government and wider public sector bodies may choose to voluntarily adopt TCFD-aligned disclosure in full or in part. Except where expressly noted in the application guidance, reporting bodies must comply with the TCFD-aligned disclosure guidance alongside existing sustainability reporting requirements.
- 5.4.10 Reporting entities are required to report against climate change adaption, and to report on the impact operations have on the environment as part of wider sustainability reporting. This includes how climate change adaptation:
- a) is embedded within overall governance, decision making and assurance processes
 - b) features in performance and project management, including the monitoring of impact assessments, and the effective use of sound evidence in policy making
 - c) whether these commitments feature in programme and project gateway reviews
- 5.4.11 In relation to climate change adaptation, departments should also report on:
- d) where policy development has been challenged and informed where appropriate, through consultation and stakeholder engagement
 - e) how the department supports staff learning and participation through performance management, learning modules, tools and guidance for policy makers, awareness campaigns, local champions, volunteering and membership of departmental, government, or external groups
 - f) how the department has supported delivery
 - g) the forward-looking commitments for improving performance
- 5.4.12 Entities falling within the scope of reporting under the Greening Government Commitments (GGCs) and which are not exempted by de minimis limits or other exemption under Greening Government (or other successor policy), shall report performance against sustainability targets, as set out in the [Sustainability Reporting Guidance \(SRG\)](#). The SRG sets out the minimum requirements and aligns with the requirements on the GGCs. Departments will need to provide a description of progress in the financial year. Inclusion of reporting against the sustainability targets will fulfil the requirements regarding greenhouse emissions in [Schedule 7](#), Part 7 of SI 2008 No. 410. It is envisaged that such reporting will be integrated throughout the annual report and accounts and not form a separate standalone report.
- 5.4.13 The UN Sustainable Development Goals (SDGs) are part of the 2030 Agenda, a package of goals aimed at securing an end to poverty and promoting peace and prosperity globally. The UK Government is delivering the SDGs via HMG's existing planning and performance frameworks. Departments are responsible for delivering the SDGs as relevant to the policy areas for which they are accountable. Departments should clearly identify where their performance contributes towards delivery of relevant SDGs. This will help to demonstrate the government's

contribution towards the SDGs and facilitate the effective monitoring of planned activities to achieve these Goals.

- 5.4.14 Spending bodies accountable to the Northern Ireland Assembly will report on sustainability within the framework established by the Northern Ireland Executive's Programme for Government. Relevant guidance will be issued by the Department for Agriculture, Environment and Rural Affairs (DAERA).
- 5.4.15 Spending bodies accountable to the Scottish Parliament will report on sustainability within the framework established by the Scottish Government and in accordance with guidance issued by the Scottish Government.
- 5.4.16 Spending bodies accountable to the Welsh Government will prepare a sustainability report within the performance report based upon targets outlined by the Welsh Government. The Welsh Government will issue relevant guidance.

Chapter 6 – The accountability report

6.1 Purpose and scope of the accountability report

- 6.1.1 The purpose of the accountability section of the annual report is to meet key accountability requirements to Parliament, who are the primary user of the annual report and accounts.
- 6.1.2 The requirements of the accountability report are based on the matters required to be dealt with in a directors' report, as set out in Chapter 5 of Part 15 of the Companies Act 2006 and Schedule 7 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410), and in a director's remuneration report, as set out in Chapter 6 of Part 15 of that Act and Schedule 8 to SI 2008/410.
- 6.1.3 The requirements of the Companies Act 2006 have been adapted for the public sector context and only need to be followed by entities which are not companies to the extent that they are incorporated into this Manual.
- 6.1.4 UK central government departments are also required to follow annual guidance on reporting requirements promulgated by HM Treasury through Public Expenditure System (PES) papers.
- 6.1.5 It is important that accountability disclosures are presented in a way that meets the needs of users, considering the guidance in [Chapter 3](#) where appropriate.

6.2 Auditors and the accountability report

- 6.2.1 Auditors will review the accountability report for consistency with other information in the financial statements and will provide an opinion on the following disclosures which should clearly be identified as audited within the accountability report:
 - a) For departments financed through the UK Government or Northern Ireland Assembly Estimates process, the Statement of Outturn against Parliamentary Supply and supporting notes, including any notes reported in an annex to the financial statements
 - b) Regularity of expenditure
 - c) Disclosures on parliamentary accountability as detailed in 6.7.1, except for 6.7.1(g) and 6.7.1(h).
 - d) Single total figure of remuneration for each minister and director
 - e) Pension cash equivalent transfer value (CETV) disclosures for each minister and director
 - f) Payments to past directors, if relevant
 - g) Payments for loss of office, if relevant
 - h) Fair pay disclosures
 - i) Exit packages, if relevant

- j) Analysis of staff numbers and costs

6.2.2 The accountability report shall be signed and dated by the Accounting Officer or chief executive.

6.3 Structure of the accountability report

6.3.1 The accountability report is required to have three sections:

- a) A corporate governance report
- b) A remuneration and staff report
- c) A parliamentary accountability and audit report

6.3.2 Entities should provide a short overview of these sections and explain how they contribute to the entity's accountability to Parliament and best practice with corporate governance norms and codes.

6.4 Corporate governance report

6.4.1 The purpose of the corporate governance report is to explain the composition and organisation of the entity's governance structures and how they support the achievement of the entity's objectives.

6.4.2 As a minimum, the corporate governance report must include:

- a) The directors' report.
- b) The statement of Accounting Officer's responsibilities.
- c) The governance statement.

The directors' report

6.4.3 The directors' report must include the following, unless disclosed elsewhere in the annual report and accounts, in which case a clear cross-reference should be provided:

- a) (departments) the ministerial titles and names of all ministers who had responsibility for the department during the year
- b) (departments) the name of the person occupying the position of the permanent head of the department
- c) (reporting entities other than departments) the names of the Chair and Chief Executive
- d) (all reporting entities) the composition of the management board (including advisory and non-executive members) 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 with the reporting entity
- e) (all reporting entities) details of company directorships and other significant interests held by members of the management board which may conflict with their management responsibilities. Where a Register of Interests is available

online, a web link may be provided instead of a detailed disclosure in the annual report

- f) (all reporting entities) information on personal data related incidents where these have been formally reported to the Information Commissioner's Office (ICO)
- g) (all reporting entities) other disclosures are promulgated by HM Treasury through PES papers

For the remainder of the Manual, individuals described in bullets b) to d) above are referred to as directors.

Statement of Accounting Officer's responsibilities

- 6.4.4 The Statement of Accounting Officer's responsibilities is required to explain the responsibilities of the Accounting Officer or Chief Executive of each reporting entity and reportable activity covered by the requirements of this Manual for preparing the financial statements. Model examples of Statements of Accounting Officer's responsibilities are provided in [Annex 1](#).
- 6.4.5 The Accounting Officer is required to confirm that, as far as they are aware, there is no relevant audit information of which the entity's auditors are unaware, and the Accounting Officer has taken all the steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the entity's auditors are aware of that information.
- 6.4.6 The Accounting Officer is required to confirm that the annual report and accounts as a whole is fair, balanced and understandable and that he or she takes personal responsibility for the annual report and accounts and the judgments required for determining that it is fair, balanced and understandable.

Governance statement

- 6.4.7 All reporting entities covered by the requirements of this Manual shall report on the review of the risk management and internal control system and the main features of the entity's risk management and internal control system in preparing a governance statement. The revised Orange Book (published in May 2023) includes a Risk Control Framework that can be used by Accounting Officers in the preparation of this statement. However, there is no set template for the governance statement, and guidance on content is provided for specific sectors and jurisdictions governed by the Relevant Authorities in:
 - HM Treasury – Managing Public Money (including Annex 3.1)
 - Scottish Public Finance Manual
 - Managing Welsh Public Money
 - Managing Public Money Northern Ireland
 - The Annual Governance Statement
 - Rough Guide for Practitioners (CIPFA Finance Advisory Network)
 - Annual guidance issued by the Department of Health and Social Care and NHS Improvement

6.4.8 At a minimum, the statement should acknowledge and explain:

- a) responsibilities for risk management and internal control systems and for reviewing their effectiveness
- b) the ongoing process and structures used to identify, evaluate and manage the principal and emerging risks faced, with cross-references to the performance report where appropriate.
- c) that the systems have been in place for the year under review and up to the date of approval of the annual report and accounts.
- d) the main features that support regular monitoring, review and assurance.
- e) the process applied in reviewing the effectiveness of the system of risk management and internal control, including explaining what actions have been or are being taken to remedy any significant failings or weaknesses. Where this information has been disclosed elsewhere in the annual report and accounts, a cross-reference to where that information can be found will suffice.
- f) the extent to which arrangements comply with requirements for specific sectors and jurisdictions governed by the relevant authorities, such as the central government Corporate Governance Code and the Orange Book, with explanations of any departures.
- g) in exceptional cases where information is not reported as it is not accurate or reliable enough to be useful or is not collected, the annual report should acknowledge this and identify the steps that are being taken to improve data collection and disclosure, as well as outlining when reliable data will be made available.

6.4.9 Please note these requirements are different to that outlined in [5.4.4 b\)](#) of this Manual, which is concerned with outlining risks that have or will affect performance, whether these have hindered the entity in achieving its objectives and how these risks have been mitigated

6.4.10 As well as these requirements, the governance statement should assess how assurance is gained by the Board and Accounting Officer of an entity. Entities should also make clear links and cross-reference to the Accounting Officer System Statement where they have one, including narrative explanation where appropriate.

6.4.11 Where a reporting entity includes in its published annual report and accounts financial statements relating to several reportable activities, the reporting entity need include only a single governance statement.

6.4.12 Where the financial statements in respect of a reportable activity are published separately from the accounts of the reporting entity, accounts preparers should prepare a governance statement in respect of the reportable activity.

6.5 Remuneration and staff report

6.5.1 The remuneration and staff report sets out the entity's remuneration policy for directors, reports on how that policy has been implemented and sets out the amounts

awarded to directors and where relevant the link between performance and remuneration.

- 6.5.2 In addition, the report provides details on remuneration and staff that Parliament and other users see as key to accountability.
- 6.5.3 The remuneration and staff report are fundamental to demonstrating transparency and accountability to Parliament. There is a presumption that information about named individuals will be given in all circumstances and all disclosures in the remuneration report will be consistent with identifiable information of those individuals in the financial statements. However, individuals must be advised in advance of the intention to disclose information about them, with an invitation for sight of the intended information to be published and notification that the individual can object under Article 21 of the General Data Protection Regulation (GDPR).
- 6.5.4 If a member does not agree to disclosure, the entity must consider whether to accept it. Under such circumstances the GDPR requires the entity to demonstrate compelling legitimate grounds for the disclosure which override the interests, rights and freedoms of the member or for the establishment, exercise or defence of legal claims. Entities are strongly advised to take legal advice in such a case, because a decision not to publish may be challenged under the Freedom of Information Act. This may also apply to other disclosures included in annual reports and accounts.
- 6.5.5 The remuneration and staff report are fundamental to demonstrating transparency and accountability to Parliament and the public and therefore disclosure is expected in all but exceptional cases. Where non-disclosure is agreed, the fact that certain disclosure has been omitted should be disclosed.
- 6.5.6 UK central government departments are also required to follow guidance contained in the annual Employer Pension Notice issued by the Cabinet Office.

Remuneration policy

- 6.5.7 Entities must disclose their policy on the remuneration of ministers and directors for the current and future years. In most cases it will be sufficient to refer to the work and recommendations of the Senior Salaries Review Body.

Single total figure of remuneration for each minister and director

- 6.5.8 Entities must disclose each component and the overall single total remuneration figure for each minister and director in the format proposed by the Cabinet Office and using the methodology defined by the Cabinet Office, in the Employer Pension Notice. The components of the single total remuneration figure are:
 - a) Salary and allowances – should be disclosed in bands of £5,000 for officials 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 severance or ex-gratia payments. It does not include amounts which are a reimbursement of expenses directly incurred in the performance of an individual's duties. For ministers, only the salary payable in respect of their role as minister of the department should be shown.

- b) Performance pay or bonuses payable – should be separately reported from salaries, in bands of £5,000.
- c) Non-cash benefits – the estimated value of non-cash benefits (benefits in kind) should be disclosed to the nearest £100.
- d) Accrued pension benefits – the value of pension benefits accrued during the year is calculated as (the real increase in pension multiplied by 20) plus (the real increase in any lump sum) less (the contributions made by the individual). The real increases exclude increases due to inflation or any increase or decreases due to a transfer of pension rights.
- e) The entity may include additional columns setting out other items of remuneration (other than payments to past directors) which are not included in a) to d) above. Any additional columns must be inserted before the column marked 'Total'.
- f) The Following narrative must also be disclosed where an individual in this table is impacted by the Public Service Pensions Remedy. ***“Accrued pension benefits included in this table for any individual affected by the Public Service Pensions Remedy have been calculated based on their inclusion in the legacy scheme for the period between 1 April 2015 and 31 March 2022, following the McCloud judgment. The Public Service Pensions Remedy applies to individuals that were members, or eligible to be members, of a public service pension scheme on 31 March 2012 and were members of a public service pension scheme between 1 April 2015 and 31 March 2022. The basis for the calculation reflects the legal position that impacted members have been rolled back into the relevant legacy scheme for the remedy period and that this will apply unless the member actively exercises their entitlement on retirement to decide instead to receive benefits calculated under the terms of the Alpha scheme for the period from 1 April 2015 to 31 March 2022.”***

Additional guidance and reporting requirements on the single total figure of remuneration table

- 6.5.9 The remuneration and staff report must show, for each person who has served as a minister or director of the entity at any time during the current financial year, the equivalent amounts for the previous financial year for the total of the sums mentioned in 6.5.8 a) to e) above.
- 6.5.10 Where any money or other assets reported in the single total figure table in the remuneration report of any previous financial year are the subject of a recovery of amount paid or the withholding of any sum for any reason in the current financial year:
 - a) the recovery or withholding must be shown in a separate column in the table as a negative value and deducted from the column headed 'Total'; and
 - b) an explanation for the recovery or withholding and the basis of the calculation must be given in a note to the table.
- 6.5.11 When, in the single total figure table, an amount is included relating to the previous financial year and that amount, when included in the remuneration report for the previous year was given as an estimated sum, then in the current financial year:
 - a) the actual amount must be disclosed;

- b) the amount representing the difference between the estimate included in the prior year's remuneration report and the actual amount must not be included in the column for the current financial year; and
- c) details of the calculation of the revised sum must be given in a note to the table.

6.5.12 In respect of non-cash benefits the entity must disclose:

- a) the types of benefits; and
- b) the value (where significant).

6.5.13 For each component of the value of which is included in performance pay and bonuses payable, the entity must disclose how the performance pay and bonus award was determined. Further guidance on what can be disclosed can be found in SI 2008/410, Schedule 8, Sections 12(2) and 12(3).

6.5.14 Where additional columns are included in accordance with paragraph **6.5.8 e)** above, the entity must disclose the basis on which the sums in the column were calculated, and other such details as are necessary for an understanding of the sums included in the column.

Pension entitlements for each minister and director

6.5.15 Entities must disclose the pension entitlements for each minister and director in the format proposed by the Cabinet Office, in the Employer Pension Notice. This must include:

- a) the real increase during the reporting year in the pension and (if applicable) related lump sum at pension age (ministers age 65) in bands of £2,500
- b) the value at the end of the reporting year of the accrued pension and (if applicable) related lump sum at pension age (ministers, age 65) in bands of £5,000
- c) the value of the cash equivalent transfer value at the beginning of the reporting year to the nearest £1,000
- d) the real increase in the cash equivalent transfer value during the reporting year, to the nearest £1,000
- e) the value of the cash equivalent transfer value at the end of the reporting year to the nearest £1,000
- f) in the case of a partnership pension account, the employer's contribution (in these circumstances, the disclosures in the bullets above will not apply)
- g) The Following narrative must also be disclosed where an individual in this table is impacted by the Public Service Pensions Remedy. ***"Accrued pension benefits included in this table for any individual affected by the Public Service Pensions Remedy have been calculated based on their inclusion in the legacy scheme for the period between 1 April 2015 and 31 March 2022, following the McCloud judgment. The Public Service Pensions Remedy applies to individuals that were members, or eligible to be members, of a public service pension scheme on 31 March 2012 and were members of a public service pension scheme between 1 April 2015 and 31 March 2022. The basis for the calculation reflects the legal position that impacted members have been rolled back into the relevant legacy scheme for the remedy period and that***

this will apply unless the member actively exercises their entitlement on retirement to decide instead to receive benefits calculated under the terms of the Alpha scheme for the period from 1 April 2015 to 31 March 2022.”

Compensation on early retirement or for loss of office

6.5.16 If a payment for compensation on early retirement or for loss of office (paid or receivable) has been made under the terms of legislation or 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 (the cost to be used must include any top-up to compensation provided by the employer to buy out the actuarial reduction on an individual's pension). This should include severance payments made to ministers on loss of office. Ministerial severance should be stated by minister and include actual and receivable payments.

Payments to past directors

6.5.17 Entities must provide details of any payments made to any person (minister or officials) who:

- a) was not a director at the time the payment was made, but
- b) had been a director of the entity previously, unless
- c) the payment details are already disclosed within a previous directors' remuneration report, the current year single total remuneration disclosure, or within the disclosure of compensation for early retirement or loss of office.

6.5.18 Only payments of regular pension benefits which commenced in previous years and payments in respect of employment for the entity other than as a director may be excluded.

Fair pay disclosures

6.5.19 For each of salary and allowances and performance pay and bonuses payable, the report must set out the following information:

- a) The percentage change from the previous financial year in respect of the highest paid director; and
- b) The average percentage change from the previous financial year in respect of the employees of the entity taken as a whole.

6.5.20 The calculation for **6.5.19(a)** for salaries and allowances shall be based on the mid-point of the band for each of salary and performance pay and bonuses payable.

6.5.21 The calculation for **6.5.19(b)** for salary and allowances shall be the total for all employees on an annualised basis, excluding the highest paid director, divided by the FTE number of employees (also excluding the highest paid director).

6.5.22 The calculation for **6.5.19(b)** in respect of performance pay and bonuses payable shall be the total for all employees, excluding the highest paid director, divided by the FTE number of employees (also excluding the highest paid director).

6.5.23 The report must include pay ratio information set out in the following table (note it is the information in the table which is mandatory- the structure of the table is illustrative):

Year	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
[year]	(X/Y25):1	(X/Y50):1	(X/Y75):1

Where:

- X is the mid-point of the banded remuneration (excluding pension benefits) of the highest paid director or minister, using the banding total for the highest paid director or minister in the single total figure table;
- Y25 is the pay and benefits figure relating to the employee whose pay and benefits are on the 25th percentile of pay and benefits of the entity's employees for the financial year;
- Y50 is the pay and benefits figure relating to the employee whose pay and benefits are on the 50th percentile of pay and benefits of the entity's employees for the financial year;
- Y75 is the pay and benefits figure relating to the employee whose pay and benefits are on the 75th percentile of pay and benefits of the entity's employees for the financial year;
- Pay and benefits means the employee's full-time equivalent pay and benefits set out in the paragraph 6.5.8 (excluding pension benefits).

6.5.24 The report must set out the following figures for each of Y25, Y50 and Y75:

- total pay and benefits; and
- the salary component of total pay and benefits.

6.5.25 The report must set out a summary for the financial year explaining:

- any reduction or increase in the current financial year's pay ratios compared to the pay ratios of the previous financial year (if the entity recorded pay ratio information for that financial year);
- whether a reduction or an increase in a pay ratio is attributable to a change in
 - the remuneration of the highest paid director or minister, or the pay and benefits of the entity's employees taken as a whole;
 - the entity's employment models (including any increase in the proportion of the entity's employees employed to work wholly or mainly outside the UK, and any increase in the proportion of the entity's workforce that is not employed by the entity under contracts of service);
- whether, and if so why, the entity believes the median pay ratio for the relevant financial year is consistent with the pay, reward and progression policies for the entity's employees taken as a whole.

- 6.5.26** The 2021-22 financial year was the first year disclosures in respect of the 25th percentile pay ratio and 75th percentile pay ratio are required. The requirements for prior year comparatives are as follows:
- a) Entities are not required to calculate and disclose prior year comparatives for the 25th percentile pay ratio and 75th percentile pay ratio. However, entities are encouraged to do so if the information is readily available.
 - b) Entities shall still report prior year comparatives for the median pay ratio in the 2021-22 financial statements.
 - c) For financial years after 2021-22, entities will be required to include prior year comparatives for all three pay ratios.
- 6.5.27** Entities must also disclose the range of staff remuneration together with prior year comparatives. This should include directors (including the highest paid director) and exclude pension benefits of all employees.
- 6.5.28** For departments, the calculations should exclude arm's length bodies within the consolidation boundary.
- 6.5.29** Further guidance can be found in [Annex 5](#).

Mandatory reporting of spending on consultancy and temporary staff

- 6.5.30** Entities must report spending on consultancy and use of contingent labour. For departmental group accounts, this expenditure should include, as separate line items, total consultancy expenditure and contingent labour expenditure incurred by executive agencies and ALBs (if relevant). Published data should be based on the definitions of consultancy and contingent labour (referred to as temporary staff for the remainder of this paper) in [Annex 4](#).
- 6.5.31** All costs relating to consultancy and temporary staff should be reported. For example, consultancy and temporary staff costs that have been capitalised into assets or grouped within Programme or IT Services expenditure should also be included to ensure completeness of the disclosure.
- 6.5.32** Spend on all consultancy and temporary staff should be reported regardless of the commercial route through which workers are engaged. The temporary staff costs should not be limited to workers engaged via the Public Sector Resourcing Framework but should also include procurements of temporary workers through other frameworks such as, but not limited to, Digital Outcomes and Specialists, G-cloud, Non-Medical Non-Clinical, Technical Services Framework and all other commercial routes. Note that spend on contracted-out services should not be reported.
- 6.5.33** Entities should provide a supporting narrative to explain the figures provided, to note changes over time and to explain any inconsistencies or limitations in coverage and scope. The narrative should disclose whether any of the spend relates to furloughed workers (if relevant).

Reporting of off-payroll appointments

- 6.5.34** Entities must publish information on their highly paid and/or senior off-payroll appointments. Off-payroll appointments are those which are not on the entity's payroll. Further guidance can be found in [Annex 5](#).
- 6.5.35** The reported data should include, (where paid £245 or more per day):

- a) Those appointments to which the off-payroll legislation applies whereby entities are required to undertake IR35 assessments under Chapter 10 of the 2003 Income Tax (Earnings and Pensions) Act. This would refer to a worker (or contractor), not employed by the client, the supplier or any other organisation within the supply chain, that instead provides their services through their own limited company or another type of intermediary to the client. An intermediary will usually be the worker's own personal service company but could also be a partnership or an individual.
- b) Those appointments that are not on the entity's payroll and where the off-payroll legislation does not apply. For example, the legislation does not apply to sole traders or workers that are employed by and on the payroll of an umbrella company, agency or other organisation in the supply chain.

6.5.36 Off-payroll appointments should be included regardless of the commercial route through which they are engaged (refer to paragraph [6.5.32](#)). This includes all other commercial routes aside from the following reported data:

- a) Workers that are controlled and directed by external suppliers in the course of providing the entity with a contracted-out service;
- b) Workers who are seconded to the entity and on the payroll of the supplying organisation; and
- c) Consultants that are providing consultancy services to the entity that do not go beyond provision of advice.

6.5.37 Entities should present the following data for all public bodies within their reporting boundaries using the above definition of off-payroll appointments. Organisations that produce their own accounts and are outside departmental accounting boundaries should disclose the information in their own ARAs.

6.5.38 Note that these off-payroll appointment disclosures are expected to refer to the same population of workers as the temporary staff spend disclosures referred to in [6.5.30](#), with the exception of the £245 per day reporting threshold.

6.5.39 For all off-payroll appointments as of 31 March 2025, earning at least £245 per day, entities should report:

- a) The total number of existing appointments as of 31 March 202;
- b) The number that have existed for less than one year at time of reporting;
- c) The number that have existed for between one and two years at time of reporting;
- d) The number that have existed for between two and three years at time of reporting;
- e) The number that have existed for between three and four years at time of reporting; and
- f) The number that have existed for four or more years at time of reporting.

Departmental group accounts should report in line with the table below. The information in the table is mandatory - the structure of the table is illustrative. Individual entities should report using a similar format.

Table: Highly paid off-payroll worker engagements as at 31 March 2025, earning £245 per day or greater.

	Core Department	ALBs	Departmental Group
Number (No.) of existing engagements as of 31 March 2025			
Of which, no. that existed:			
less than 1 year			
for between 1 and 2 years			
for between 2 and 3 years			
for between 3 and 4 years			
for 4 or more years			

To determine the length of the appointment, entities should use the time engaged under the current contract including all extensions to that contract. Breaks in appointments that are no more than the typical period of a holiday should be ignored.

6.5.40 For all off-payroll appointments engaged at any point during the year ended 31 March 2025 and earning at least £245 per day, entities should report:

- a) The number of appointments in force during the time period;
- b) The number of these appointments to which the off-payroll legislation does not apply;
- c) The number of these appointments to which the off-payroll legislation does apply and which were assessed as within scope of IR35;
- d) The number of these appointments to which the off-payroll legislation does apply and which were assessed as not within scope of IR35;
- e) The number of appointments that were reassessed for consistency/ assurance purposes during the year; and
- f) The number that saw a change to IR35 status following the assurance review.

Departmental group accounts should report in line with the table below. The information in the table is mandatory - the structure of the table is illustrative. Individual entities should report using a similar format:

Table: All highly paid off-payroll workers engaged at any point during the year ended 31 March 2025, earning £245 per day or greater

	Core Department	ALBs	Departmental Group
No. of temporary off-payroll workers engaged during the year ended 31 March 2025			
Of which:			
Not subject to off-payroll legislation			
Subject to off-payroll legislation and determined as in-scope of IR35			
Subject to off-payroll legislation and determined as out-of-scope of IR35x			
No. of engagements reassessed for compliance or assurance purposes during the year			

Of which: No. of engagements that saw a change
to IR35 status following review

Notes

- A worker that provides their services through their own limited company or another type of intermediary to the client will be subject to off-payroll legislation and the entity must undertake an assessment to determine whether that worker is in- scope of Intermediaries legislation (IR35) or out-of-scope for tax purposes.

6.5.41 For any off-payroll worker tax liabilities and/or HMRC penalties imposed upon the entity as a result of non-compliance with off-payroll worker legislation, entities must disclose these in the losses statement in the accountability report in the annual reports and accounts where the aggregate total for the year exceeds the threshold for losses reporting as stipulated in Managing Public Money (currently £300,000) or Managing Public Money Northern Ireland. Reference to any such losses should also be disclosed beneath the requirements set out in [6.7.1 d\)](#).

6.5.42 For any off-payroll engagements of board members and/or senior officials with significant financial responsibility¹⁹ between 1 April 2024 and 31 March 2025, entities must also disclose:

- a) The number of off-payroll engagements of board members and/or senior officials with significant financial responsibility, during the financial year;
- b) Details of the exceptional circumstances that led to each of these engagements;
- c) Details of the length of time each of these exceptional engagements lasted; and
- d) The total number of individuals both on and off-payroll that have been deemed “board members and/or senior officials with significant financial responsibility”, during the financial year. This total figure must include engagements which are ON PAYROLL as well as those off-payroll.

Departmental group accounts should report in line with the table below. The information in the table is mandatory - the structure of the table is illustrative. Individual entities should report using a similar format.

Table: For any off-payroll engagements of board members, and/or, senior officials with significant financial responsibility, between 1 April 2024 and 31 March 2025

	Main Department	Agencies	ALBs
No. of off-payroll engagements of board members, and/or, senior officials with significant financial responsibility, during the financial year.			
Total no. of individuals on payroll and off-payroll that have been deemed “board members and/or senior officials with significant financial responsibility”, during the financial year. This figure should include both on payroll and off- payroll engagements.			

¹⁹ In defining “significant financial responsibility” entities should consider the individual’s level of authority over the organisation’s budget and wider public sector spending.

Notes

- There should only be a very small number of off-payroll engagements of board members and/or senior officials with significant financial responsibility, permitted only in exceptional circumstances and for no more than six months
- As both on payroll and off-payroll engagements are included in the total figures, no entries here should be blank or zero

6.5.43 In any cases where individuals are included within the first row of the table within [6.5.42](#) the entity should set out:

- a) Details of the exceptional circumstances that led to each of these engagements.
- b) Details of the length of time each of these exceptional engagements lasted.

Staff report

6.5.44 It is important that the staff report disclosures are presented in a way that meets the needs of users, considering the guidance in [Chapter 3](#) where appropriate. The staff report must include the following information for all entities:

- a) Number of senior civil service staff (or equivalent) by band
- b) Staff numbers and costs – entities should provide an analysis of staff costs and numbers distinguishing between:
 - i. Staff with a permanent (UK) employment contract with the entity
 - ii. Other staff engaged on the objectives of the entity (for example, short term contract staff, agency/temporary staff, locally engaged staff overseas and inward secondments where the entity is paying the whole or the majority of their costs). Where the number of staff under any one category of ‘other staff’ is significant, that category should be separately disclosed
 - iii. Ministers
 - iv. Special advisers
- c) Staff composition – Entities should provide an analysis of the number of persons of each sex who were directors, senior civil servants (or equivalent) and employees of the company
- d) Sickness absence data
- e) Staff turnover percentage - Entities should apply the Cabinet Office guidance on a **comply or explain basis**, including which parts of the consolidated group the figure relates to. Information should be provided with sufficient explanation and context, including trend data where appropriate.

The Cabinet Office guidance can be found here: [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/854929/Annex A - Turnover Definition 1 2 .pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/854929/Annex_A_-_Turnover_Definition_1_2_.pdf)

- f) For those entities who contribute to it, staff engagement percentage scores from the latest Civil Service People Survey²⁰. Entities that do not participate in the Civil Service People Survey should provide appropriate similar indicators where

²⁰ <https://www.gov.uk/government/collections/civil-service-people-survey-hub>

possible. Information should be provided with sufficient explanation and context, including trend data where appropriate.

- g) Staff policies applied during the financial year:
 - i. For giving full and fair consideration to applications for employment by the company made by disabled persons, having regard to their particular aptitudes and abilities.
 - ii. For continuing the employment of, and for arranging appropriate training for, employees of the company who have become disabled persons during the period when they were employed by the company.
 - iii. Otherwise for the training, career development and promotion of disabled persons employed by the company.
- h) For those entities that are in scope (i.e. most public authorities), statutory disclosures are required under The Trade Union (Facility Time Publication Requirements) Regulations 2017 (SI 2017/328). The facility time (FT) data that organisations are required to collate and publish are:
 - i. Number of employees who were relevant union officials during the relevant period.
 - ii. How many employees who were relevant union officials during the relevant period spent a)0%, b)1 – 50%, c) 51-99% or d)100% of their working hours on facility time.
 - iii. Percentage of the total pay bill spent on facility time.
 - iv. Time spent on paid trade union activities as a percentage of total paid facility time hours

This could be a full disclosure or, if preferred, a reference supported by the inclusion of the pro forma disclosure as an annex elsewhere in the accounts.

The online reporting service can be found here:

<https://www.gov.uk/government/publications/trade-union-facility-time-publication-service-2018-19>

It includes guidance and a tool for public sector organisations to submit their facility time data to the Cabinet Office.

Disclosures for departments must cover the core departments and its Executive Agencies only. No consolidation is required of any other public authority within the departmental boundary, regardless of whether they are in scope or not. The legislation is satisfied as all public authority bodies, that are required to disclose, will do so in their own individual accounts.

Similarly, disclosures for a group, that falls in its entirety or partially into the public sector (e.g. museums), does not need to consolidate disclosures from any subsidiaries, only bodies that fall in scope need to provide their individual disclosures in their own accounts.

- i) employment and occupation; employment issues including employee consultation and/or participation; health and safety at work; trade union relationships; and human capital management such as career management and employability, pay policy etc.
- j) Expenditure on consultancy

- k) Off-payroll engagements – summary data on the use of off-payroll arrangements
- l) Exit packages – summary data on the use of exit packages. Any additional disclosures in line with the Civil Service Compensation Scheme in the format set out by the Cabinet Office should be made along with those costs recognised in the financial statements.

Best Practice Disclosures – Diversity and Inclusion

6.5.45 Entities applying this Manual are encouraged to include details and narrative of their own diversity and inclusion policies, initiatives and longer-term ambitions in the staff report. It is recognised that there are several work streams across the Civil Service as a whole, within devolved governments and within individual entities to improve the diversity and inclusiveness of their workforces, tackle discrimination and provide equality of opportunity for all. The purpose of these disclosures is not to duplicate the existing outputs from these work streams or any other publications issued by the entity. Rather, it is to provide entities the opportunity to communicate in their annual report:

- a) their diversity and inclusion policies and own workstreams to improve the diversity and inclusion of their workforce;
- b) how they have shown due regard to the key aims of the public sector equality duty;
- c) changes in the actual diversity and inclusiveness of their workforce over time and against any internal targets the entity may have; and
- d) any identified barriers to having a more diverse workforce and what the entity is doing to remove these barriers.

6.5.46 Disclosures explaining diversity and inclusion of an entity's workforce could include the following (note this is not an exhaustive list):

- a) Changes to staff composition of under-represented groups at the entity over time, both for the workforce as a whole and for management and/ or senior management positions.
- b) Comparison of staff composition of under-represented groups against any diversity and inclusion targets the entity may have, with explanations of what the entity has done to meet those targets or what the entity is doing to improve the diversity and inclusiveness of its workforce.
- c) Whether the entity has identified any barriers to improving the diversity of their workforce as a whole and management/ senior management positions.
- d) If barriers to having a more diverse workforce have been identified, an explanation of what actions the entity has or will put in place to remove these barriers.

6.5.47 Entities may wish to cross reference to publicly available reports covering diversity and inclusion where the entity publishes such reports.

6.5.48 Entities may wish to explain how they have had ‘due regard’ to the three aims of the public sector equality duty²¹ under the Equality Act 2010²², being:

- a) Eliminate unlawful discrimination, harassment, victimisation and any other conduct prohibited by the Act;
- b) Advance the equality of opportunity between people who share a protected characteristic and people who do not share it; and
- c) Foster good relations between people who share a protected characteristic and people who do not share it.

6.5.49 Entities may wish to cross reference to publications they may have issued setting out how they have had due regard to their public sector equality duty.

6.5.50 Entities may have responsibilities under other pieces of legislation to report on the diversity and inclusiveness of their workforce and promoting equality of opportunity.

6.5.51 Entities may therefore wish to cross reference to any outputs and publications in relation to these responsibilities and explain how they are meeting those responsibilities.

6.5.52 Entities may wish to cross-reference to the outputs from the Civil Service equality and diversity workstream, which can be found below:

<https://www.gov.uk/government/organisations/civil-service/about/equality-and-diversity>

Parliamentary accountability and audit report

6.5.53 The parliamentary accountability and audit report brings together the key parliamentary accountability documents within the annual report and accounts. It comprises:

- a) (departments financed through the UK or Northern Ireland Assembly Estimates process) Statement of Outturn against Parliamentary Supply and supporting notes
- b) (all entities) regularity of expenditure
- c) (all entities) further parliamentary accountability disclosures
- d) (all entities) the Certificate and Report of the Comptroller and Auditor General to the House of Commons

6.5.54 The requirements for (a) to (c) and further detail on (d) are detailed below.

6.6 Supply and the Statement of Outturn against Parliamentary Supply (SOPS)

6.6.1 This section applies only to departments financed through the UK Government or Northern Ireland Assembly Estimates process. It provides guidance on how departments should account for Supply and how outturn against Estimates should be disclosed in the SOPS and supporting notes.

²¹ Refer to page 4 of the following document for further guidance:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/85041/equality-duty.pdf

²² If you are unsure whether your entity is within scope of the public sector equality duty in the Equality Act 2010, refer to Part 11 and Schedule 19 of the Equality Act 2010: <https://www.legislation.gov.uk/ukpga/2010/15/contents>

- 6.6.2** The Scottish Parliament and the Senedd have their own financing arrangements and their own forms of parliamentary accountability.
- 6.6.3** Supply is the monetary provision (for resource and capital purposes) and cash (drawn primarily from the Consolidated Fund) that Parliament gives statutory authority for entities to utilise. Supply is voted on an annual basis in Estimates and in the Appropriation Acts (Budget Act in Northern Ireland).
- 6.6.4** 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 Managing Public Money Northern Ireland (the Department of Finance 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. Further information on the Fiscal Framework, the public spending framework and the Public Expenditure Statistical Analyses is available on the gov.uk website.

The Statement of Outturn against Parliamentary Supply

- 6.6.5** The Statement of Outturn against Parliamentary Supply (SOPS) is unique to the public sector and shows the year end outturn against the Supply voted earlier in the year by Parliament. It is a key accountability statement, showing whether entities have operated within the limits (also termed control totals) which Parliament has provided statutory approval for. If an entity's outturn exceeds its Estimate, it has incurred spend without parliamentary approval and the accounts will receive a qualified audit opinion.
- 6.6.6** The Estimates and SOPS are compiled on a different basis to the financial statements, using the budgeting rules detailed in the Consolidated Budgeting Guidance (CBG). These rules are similar to, but differ from IFRS, as budget data feeds the National Accounts, which are compiled using national frameworks and guidance. This means the outturn in the SOPS does not reconcile exactly to the disclosures in the financial statements. Further information on the alignment between financial statements, Estimates and National Accounts is provided in Chapter 1 of the CBG.
- 6.6.7** In addition to the requirements and options listed further below, following this guidance and the illustrative disclosures should work as follows:
- a) SOPS disclosures must be compiled using the structure detailed in **6.6.10 – 6.6.15** below, presenting the summary tables and notes as stipulated.
 - b) SOPS disclosures must follow the form of the illustrative disclosures 1 as a *comply* or *explain* requirement. Form in this instance refers to the columns, rows and totals provided in the illustrative disclosures. Some flexibility is, therefore, allowed for preparers to adjust their SOPS disclosures where this aids usability. An exemption from providing explanation is allowed where removing rows or columns that are empty.
 - c) The formatting of SOPS disclosures can be adjusted as preparers see fit, although the illustrative disclosures do provide best practice formatting. Formatting includes highlighting, colouring, font, spacing or sizing.
- 6.6.8** Further requirements for SOPS reporting are as follows:

- a) Supporting text, as detailed in the illustrative disclosures, must be included, to establish what the SOPS are and how they can be understood.
- b) Where the budgeting framework has not already been explained as part of the financial review in the performance report (see [5.4.5](#)), an explanation of the budgeting framework must instead be included in the SOPS; for example, through a flow of funds diagram. How this is done is left to the discretion of the preparer but should at least define key terms. This can be provided either in the performance report, the SOPS or in a glossary. Refer to Chapter 1 in the [Consolidated Budgeting Guidance](#) for an explanation of these terms and [6.6.18 – 6.6.20](#) below.
- c) Unless commentary is already provided as part of the financial review in the performance report (see [5.4.5](#)), commentary on variances between outturn and Estimate should be provided in the SOPS. Commentary on outturn against Estimate variances may be provided for either or both the summary table or SOPS Note 1, depending on what is worthwhile for users.

Commentary must be written with the user in mind, to help them understand where there has been agreed or unexpected changes in spending, when compared to the Estimate, and how that has affected performance and why. Again, preparers should consider best practice in reporting ([Chapter 2](#)) when providing commentary on variances, and should attempt to link information across the different parts of the annual reports and accounts.

- d) All figures must be presented in £000's.

6.6.9 The following are further optional aspects of SOPS reporting:

- a) Preparers may find it useful to provide further context over and above the minimum requirements detailed above.
- b) Preparers should ensure the SOPS links users to other sections of the annual report (and vice versa) where relevant; for example, to the financial review in the performance report. Preparers should ensure that all elements of their annual reports and accounts tell a cohesive and coherent story.

The Statement of Outturn against Parliamentary Supply summary tables

6.6.10 The SOPS reports the following to Parliament (as noted above, refer to the illustrative disclosures for detail):

- a) the summary of outturn, which follows the format of Part I of the Estimate. This includes a comparison of outturn against the Supply Estimate voted by Parliament in respect of each budgetary control limit. The Summary will show net resource expenditure, and net capital expenditure for both Departmental Expenditure Limit (DEL) and Departmental Annually Managed Expenditure (AME) budget classifications. It will report this by voted and non-voted (e.g. Consolidated Fund standing services)
- b) the net cash requirement (calculated on the same basis as the Voted Supply Estimate), with a comparison of the outturn against the Voted Supply Estimate
- c) a statement of administration costs incurred, with a comparison of the administration costs limit. Although the administration costs limit is not formally

voted by Parliament, it is treated as a parliamentary control, and reported on in the same way as voted limits

The Notes to the Statement of Outturn against Parliamentary Supply

6.6.11 For UK Government departments the following information must be given in the supporting notes.

Notes 1: Analysis of net outturn by section

6.6.12 This note follows the format of Part II: Subhead detail in the Estimate. The first part analyses net resource outturn by section and between administration costs, programme costs and income and compares the net total outturn for each section with the Estimate. The second part analyses net capital outturn by section and between gross expenditure and income and compares the net total outturn for each section with the Estimate.

Note 2: Reconciliation of resource outturn to net operating expenditure

6.6.13 This note reconciles the net resource outturn (from Note 1) to the net operating expenditure shown in the Statement of Comprehensive Net Expenditure and follows the format of Part II: Resource to cash reconciliation in the Estimate. All reconciling items must be briefly explained. 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 treatments of PPP expenditure 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.

Note 3: Reconciliation of net resources to net cash requirement

6.6.14 This note reconciles the net resource outturn to the net cash requirement and follows the format of Part III: Note A in the Estimate. It should briefly state the reasons for any variances between the Estimate and outturn. This note may be published as a note to the Statement of Outturn against Parliamentary Supply or within an annex to the annual report and accounts.

Note 4: Analysis of income due to the Consolidated Fund

6.6.15 The note is divided into note 4.1 and note 4.2:

- a) This note analyses income payable to the Consolidated Fund and will only be required if non-budget income has arisen during the year.
- b) Note 4.2 is required where an entity collects income on behalf of the Consolidated Fund as an agent and does not prepare a Trust Statement (for example if the amounts are immaterial). Where this disclosure is provided, the explanatory text provided in the illustrative disclosures must be included.

Northern Ireland departments

6.6.16 The Statement of Outturn Against Assembly Supply for Northern Ireland departments is based on similar principles to the Statement of Outturn against Parliamentary

Supply. For Northern Ireland departments, references to Parliament in this guidance equates to the Northern Ireland Assembly and references to the Consolidated Fund equate to the Northern Ireland Consolidated Fund.

Clarity on Key Terms

- 6.6.17** Preparers may find the following definitions useful. Further detail and an explanation of other budgeting terms can be found in the Consolidated Budgeting Guidance and Supply Estimates Manual.
- 6.6.18** Voted – Voted funds are funds that are voted on as part of the Supply Estimate. This is better understood against the context of non-voted.
- 6.6.19** Non-voted – Non-voted refers to funds that are not voted on by Parliament, but which an entity has approval to utilise. Non-voted generally refers to certain standing types of spend that don't require annual approval; for example, Consolidated Fund Standing Services or National Insurance Fund payments.
- 6.6.20** How income should be presented – There are specific rules on how different forms of income are presented in the Estimates. For further detail on the different forms of income for budgeting purposes, please refer to chapter 4 of the Consolidated Budgeting Guidance and to the Estimates manual for detail on presentation (including what to present as net of expenditure).

6.7 Other notes relating to parliamentary accountability

- 6.7.1** Entities covered by Managing Public Money or Managing Public Money Northern Ireland are also required to include the following disclosures related to parliamentary accountability:
- a) (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)
 - b) a brief description of the nature of each of the entity's material remote contingent liabilities (that is, contingent liabilities in scope of IAS 37 but are not required to be disclosed in the financial statements because the likelihood of a transfer of economic benefits is considered too remote) and, where practical, an estimate of its financial effect.
 - c) (Public Sector Information Holders only) a statement is required if the entity has not complied with the cost allocation and charging requirements set out in Managing Public Money
 - d) a statement of losses and special payments where the total amounts incurred are over the limits proscribed in Managing Public Money or Managing Public Money Northern Ireland. In the case of reporting on special payments which are severance payments, the detail to be disclosed should include the number of special severance payments made, the total amount of special severance payments paid out, and the maximum (highest), minimum (lowest) and median values of special severance payments made. Where an entity's reporting of special severance payments does not include some or all of these details in

circumstances in which doing so would conflict with a legal obligation arising as a result of the Data Protection Act 2018, or otherwise, this fact should also be disclosed

- e) notation of gifts made over the limits proscribed in Managing Public Money or Managing Public Money Northern Ireland
- f) entities should provide an analysis of fees and charges income where material. The analysis should include the following information for each service:
 - the financial objective(s) and performance against the financial objective(s)
 - the full cost and unit costs charged in year
 - the total income received in year
 - the nature/extent of any subsidies or overcharging
- g) (departments only) A reconciliation between contingent liabilities reported in the Supply Estimate and those reported in the annual report and accounts.
 - This reconciliation shall cover both contingent liabilities reported under IAS 37 and remote contingent liabilities within the scope of IAS 37 and disclosed in the parliamentary accountability report rather than the financial statements.
 - The reconciliation shall include both quantifiable and non-quantifiable contingent liabilities.
 - Entities may cross-reference to other parts of the annual report and accounts to explain variances or to provide additional information.
 - For quantifiable contingent liabilities, entities need only provide explanations for material variances.
 - For unquantifiable contingent liabilities, entities shall provide details on the current position of those contingent liabilities which are in the Supply Estimate but not the annual report and accounts and vice versa.
 - Entities may include this reconciliation as a note within an annex to the annual report and accounts.
 - This reconciliation and associated explanations are not subject to audit.
 - Entities may include the below table as a template for this reconciliation.

Quantifiable CLs:			
Description of CL	Supply Estimate (£000)	Amount disclosed in ARA (£000)	Variance (Estimate – Amount disclosed in ARA), (£000)
Indemnity for X	1,000	500	500
Unquantifiable CLs			
Description of CL	Included in Supply Estimate (Yes/ No)	Disclosed in the ARA? (Yes/ No)	Explanation of difference
Indemnity for Y	Yes	No	

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- the £500k variance for indemnity X is due to ABCD

- the reason for indemnity Y not being included in these financial statements is due to EFGH

h) A statement about the use of government functional standards (guidance on government functional standards can be found [here](#)).

6.7.2 Departments should note these disclosures (except for **6.7.1(g)** and **6.7.1(h)**) will be subject to an audit opinion as described in [6.2](#).

6.7.3 It is best practice to include a section in the annual report and accounts with links to Written Ministerial Statements and Departmental minutes which notify parliament of liabilities. This section can also in an annex to the annual report and accounts.

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

6.8.1 All entities (other than in Scotland) are required to have their financial statements audited by the auditor named in the relevant legislation or other legislation or governing statute. The general presumption is that the auditor will be the Comptroller and Auditor General, the Auditor General for Wales, or the Comptroller and Auditor General for Northern Ireland. In Scotland, the Auditor General for Scotland determines who carries out the audit and generally appoints a member of staff of Audit Scotland or an accountancy firm.

6.8.2 Entities should refer to the guidance on the handling of public funds and to the individual websites of the audit offices for information about the role of the auditor.

6.8.3 Auditors apply International Standard on Auditing (UK) 700 and other relevant guidance in carrying out their audits and in arriving at their opinion. The precise audit opinion will depend on the results of the audit and is the responsibility of the auditor.

6.8.4 Where the relevant legislation requires the auditor to report on the examination of the financial statements, the auditor will provide such a report. The form and content of the report is the responsibility of the auditor. Where the auditor has no substantive comment to make, the report will generally be in the form of a single sentence appended to the audit opinion in the form: 'I have no observations to make on these financial statements'. Where there is a substantive report, it will be referred to in the audit opinion, but will be separate from it.

6.8.5 The Companies Act 2006 s.479A was amended with effect from 1 October 2012 to include conditions for exemption from audit for subsidiary companies within a group²³. Subsidiary companies limited by guarantee would normally be subject to audit by the Comptroller and Auditor General, Auditor General for Wales, the Auditor General for Scotland or the Comptroller and Auditor General for Northern Ireland and therefore not eligible for exemption. If an entity wishes to use the exemption for a subsidiary company limited by shares, this must be approved by the relevant authority (through sponsoring bodies where appropriate) who will assess whether the exemption is appropriate for the particular circumstance.

²³ Statutory instrument 2012/2301 *The Companies and Limited Liability Partnerships (Accounts and Audit Exemptions and Change of Accounting framework) Regulations 2012* available on the legislation.gov.uk website

Chapter 7 – The financial statements

7.1 Introduction

- 7.1.1** This section provides guidance to reporting entities on the format and content of:
- a) the (Consolidated) Statement of Comprehensive Net Expenditure,
 - b) the (Consolidated) Statement of Financial Position,
 - c) the (Consolidated) Statement of Changes in Taxpayers' Equity; and
 - d) the (Consolidated) Statement of Cash Flows; together with
 - e) the relevant notes.
- 7.1.2** The following paragraphs make it clear how different types of reporting entity should present financial statements. The detailed requirements for the format and content of the financial statements of reportable activities are set out in the accounts directions for those activities.
- 7.1.3** This section sets requirements based on the Companies Act 2006 and details adaptations and interpretations of the following accounting standards that provide guidance on the formats of, and disclosures in, financial statements:
- a) IAS 1 Presentation of Financial Statements
 - b) IAS 7 Statement of Cash Flows
 - c) IAS 10 Events after the Reporting Period
 - d) IAS 24 Related Party Disclosures
 - e) IFRS 8 Operating Segments
- 7.1.4** Other accounting standards, which are dealt with in other chapters of this Manual, might include disclosure requirements. Unless indicated otherwise, those disclosure requirements apply in full.
- 7.1.5** All reporting entities shall prepare individual or group accounts as appropriate using IAS 1. Where departments prepare group accounts IAS 1 is interpreted to require that the financial statements provide two columns, one showing the core department plus executive agencies and the other showing the group.
- 7.1.6** IAS 1 provides guidance on the comparative information to be disclosed in the financial statements. These requirements should be applied in full except that reporting entities should note that a decision on whether to include corresponding amounts in disclosures specific to government departments and their executive agencies (for example, in relation to information on the Statement of Outturn against Parliamentary Supply) will be taken on a case-by-case basis.
- 7.1.7** Illustrative financial statements are provided on the FReM section of the gov.uk website. These are illustrative, rather than prescriptive, and are provided to assist the preparers of annual reports and accounts.

7.2 Statement of Comprehensive Net Expenditure

- 7.2.1** IAS 1 requires entities to prepare a Statement of Comprehensive Income. This Manual adapts IAS 1 as set out below.
- 7.2.2** 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. Row headings should be based on the department's material sources of income and expenditure. Where a department or agency considers that an alternative format is required to improve the understanding of the body's financial performance, they should seek the approval of the relevant authority, with agencies seeking approval through the sponsoring department.
- 7.2.3** In applying IAS 1 where this Manual refers to the Statement of Comprehensive Net Expenditure or Statement of Comprehensive Income, ALBs should interpret this terminology as appropriate for their own circumstances.
- 7.2.4** ALBs which are trading funds should prepare a Statement of Comprehensive Income.
- 7.2.5** ALBs which are companies may make use of the exemption available under section 408 of Chapter 4 of Part 15 of the Companies Act to omit the company's individual profit and loss account and only report the group profit and loss account if the conditions in section 408 are met.

7.3 Statement of Financial Position

- 7.3.1** 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.
- 7.3.2** The Statement of Financial Position must be signed by the Accounting Officer or, where relevant, chief executive.

7.4 Statement of Cash Flows

- 7.4.1** IAS 7 sets out the requirements for the format of the Statement of Cash Flows. Entities financed by Supply issued from the Consolidated Fund should include amounts drawn down from the Consolidated Fund and paid to the Consolidated Fund on a gross basis in the financing section.
- 7.4.2** In reconciling the operating expenditure to operating cash flows, entities should exclude movements in debtors and creditors relating to items that do not pass through the Statement of Comprehensive Net Expenditure (balances with the Consolidated Fund; and debtors and creditors linked to loans from the National Loans Fund, capital expenditure, finance leases and PPP contracts);
- 7.4.3** In analysing capital expenditure and financial investment, entities should adjust for debtors and creditors relating to capital expenditure and those relating to loans issued to or repaid by other bodies.
- 7.4.4** In analysing financing, entities should adjust for debtors and creditors relating to the capital expenditure in respect of finance leases and on-balance sheet PPP contracts.

7.5 Statement of Changes in Equity

- 7.5.1** IAS 1 requires entities to prepare a Statement of Changes in Equity. IAS 1 is interpreted for the public sector context such that all reporting entities are required to present a Statement of Changes in Taxpayer's Equity following the format in IAS 1. Entities funded from Supply or grant-in-aid will need to adapt the format to disclose transactions with the General Fund (or equivalent component of equity).
- 7.5.2** The General Fund (or equivalent component of equity) represents the total assets less liabilities of a department or agency, to the extent that the total is not represented by other reserves and financing items. Supply financing is credited to the General Fund (or equivalent component of equity) as is financing from the National Insurance Fund (relating to benefits expenditure) and from the Contingencies Fund. An amount equal to any expenditure on standing services is credited to the General Fund (or equivalent component of equity).
- 7.5.3** Where expenditure is funded directly by the Consolidated Fund, a department should account for the transaction in its Statement of Comprehensive Net Expenditure if it satisfies both of the following criteria:
- a) the entity has the ability to deploy the economic resources involved; and
 - b) the entity has the ability to benefit (or to suffer) from the deployment of those resources
- 7.5.4** The financing of public sector entities is ultimately tax-based and an IAS 1-based notion of capital does not apply to many of them. Capital disclosures should be given only with the agreement of the relevant authority (through the parent or sponsoring department where appropriate).

7.6 Notes to the Accounts

- 7.6.1** The notes to the financial statements provide additional detail to users on the accounting policies of the entity and the numbers included in the core financial statements.
- 7.6.2** Notes should only be included where additional information is material, i.e. where its omission or misstatement could influence the decisions of users taken on the basis of the financial statements.
- 7.6.3** In the public sector context, materiality can be by nature and context as well as in value, and the decisions of users can be of a non-economic nature.
- 7.6.4** HM Treasury does not require departments to produce notes where the information is immaterial to the user and this manual clearly notes that disclosures should be limited to those necessary for an understanding of the entity's circumstances.
- 7.6.5** Entities should refer to the disclosure requirements in the International Financial Reporting Standards unless adaptations and interpretations are detailed below or where additional disclosures are necessary to meet parliamentary accountability requirements for those entities covered by [Managing Public Money](#) or [Managing Public Money Northern Ireland](#).

Accounting policies

- 7.6.6** The notes to the accounts must include a statement that the accounts have been prepared in accordance with International Financial Reporting Standards as adapted and interpreted by this Manual.
- 7.6.7** Executive agencies that are not whole departments and ALBs must also include a note that the accounts have been prepared under a direction issued by [relevant authority] under [reference to appropriate legislation].
- 7.6.8** Material accounting policies should be disclosed particularly in the event of a change in policy or in relation to a material item. The accounting policy for a particular item within the financial statements may be disclosed within the note for that item.
- 7.6.9** Where an entity considers that additional information on accounting policies is necessary to assist users then this should be included in the accounting policies note or next to an individual disclosure note.

Operating Segments

- 7.6.10** IFRS 8 applies in full to all entities within scope of this Manual. Entities should provide an analysis of their operating segments, products and services, the geographical areas in which they operate, and their major customers in accordance with the requirements of IFRS 8.

Expenditure

- 7.6.11** Entities should provide an analysis of expenditure as recorded in the Statement of Comprehensive Net Expenditure in separate notes to the financial statements. This should include revenue charges under PPP contracts, the individual components of non-cash items, and an analysis of other significant expenditure items. A brief summary of staff costs should also be included with a reference to more detailed disclosures in the accountability report.

Cash and cash equivalents

- 7.6.12** 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)²⁴ and balances held in commercial banks.

Financial instruments

- 7.6.13** Where the entity is exposed to material financial instrument risk the relevant IFRS 7 disclosures should be made. Particular emphasis should be placed on considering appropriate disclosure requirements relating to significant credit risk from receivables.

Commitments under PPP contracts

- 7.6.14** For 'off-balance sheet' service concessions entities should disclose the total payments to which they are committed, distinguishing between those that are due to be made within one year, between one and five years, and later than five years.
- 7.6.15** For 'on-balance sheet' service concession arrangements the relevant SIC 29 and IFRS 7 disclosures should be made, along with any relevant disclosures required under IFRS

²⁴ Where GBS is using Citi, Barclays and Royal Bank of Scotland Group to provide the banking services, funds held in these accounts should not be classed as commercial bank balances.

for the underlying infrastructure in the service concession arrangements. In addition, entities should ensure they disclose the total commitments due within one year, between one and five years, and later than five years. This should include a reconciliation between the cash flows included in the liability recognised on the Statement of Financial Position and its present value.

Other Financial Commitments

- 7.6.16** Other financial commitments are non-cancellable contracts not already on the SoFP which are not leases, PFI contracts, or other service concession arrangements.
- 7.6.17** Entities shall disclose an analysis of the total value of other financial commitments between those:
- a) not later than one year;
 - b) later than one year but not later than 5 years; and
 - c) later than five years.
- 7.6.18** Individually material other financial commitments should be separately disclosed along with a brief description of the nature of these commitments.

Information about related undertakings

- 7.6.19** If not disclosed elsewhere in the annual report and accounts, entities shall disclose the name of each of its subsidiaries or provide a web link to where this information is available. If the entity has significant holdings²⁵ in undertakings other than subsidiary undertakings, then the following must be disclosed:
- a) The name of the undertaking
 - b) If the undertaking is incorporated outside the UK, the country in which it is incorporated, or, if it is unincorporated, the address of its principal place of business
 - c) The identify of each class of shares in the undertaking held by the company and the proportion of the nominal value of the shares of that class represented by those shares
 - d) If the entity holds more than 50% of the nominal value of the shares in the undertaking, the aggregate amount of the capital and reserves of the undertaking as at the end of its financial year and its profit or loss for that year, if material

Third party assets

- 7.6.20** These 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. Material third party assets should be disclosed. 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,

²⁵ A holding is significant for this purpose if it amounts to 20% or more of the nominal value of any class of shares in the undertaking or the amount of the holding exceeds one-fifth of the amount of the company's assets.

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
- 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.

Part C: Application of accounting standards for government annual reports and accounts

Chapter 8 – Adapting and interpreting IFRS Standards

8.1 UK adopted IFRS

8.1.1 A list of UK adopted International Accounting Standards is shown in Table 1, together with a record of whether they have been adapted or interpreted for the public sector context in this Manual. Adaptation is where a part of a standard is modified to take into account particular public sector circumstances, such as where a definition in a standard is expanded. Interpretation is where part of a standard is explained further so as to clarify its appropriateness for the public sector context, such as where an option to apply an election in a standard is withdrawn.

8.1.2 All standards apply to all reportable activities and reporting entities applying this Manual to the extent that each standard is relevant to those activities and in the light of any statutory requirements or other pronouncements that might from time to time be made by the relevant authorities. Where adaptations or interpretations are different for ALBs these are identified below. All adaptations and interpretations have been through due process, include being approved by the Financial Reporting Advisory Board (FRAB).

Table 1

International Standard	Applies without adaptation or interpretation	Applies as interpreted for public sector	Applies as adapted for public sector	Different adaptations or interpretation for ALBs
IFRS 1 First-time Adoption of IFRS		●		
IFRS 2 Share-based Payments	●			
IFRS 3 Business Combinations		●		
IFRS 4 Insurance Contracts	●			
IFRS 5 Non-current Assets Held for Resale and Discontinued Operations		●		
IFRS 6 Mineral Resources	●			

International Standard	Applies without adaptation or interpretation	Applies as interpreted for public sector	Applies as adapted for public sector	Different adaptations or interpretation for ALBs
IFRS 7 Financial Instruments: Disclosures ²⁶	●			
IFRS 8 Operating Segments	●			
IFRS 9 Financial Instruments ²⁶		●	●	
IFRS 10 Consolidated Financial Statements			●	●
IFRS 11 Joint Arrangements			●	●
IFRS 12 Disclosure of Interests in Other Entities			●	●
IFRS 13 Fair Value Measurement ²⁷	●			
IFRS 15 Revenue from Contracts with Customers ²⁶		●	●	
IFRS 16 Leases		●	●	
IAS 1 Presentation of Financial Statements		●		
IAS 2 Inventories		●		
IAS 7 Statement of Cash Flows		●		
IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors	●			
IAS 10 Events after the Reporting Period		●		
IAS 12 Income Taxes	●			
IAS 16 Property, plant and equipment		●	●	
IAS 19 Employee Benefits		●	●	
IAS 20 Accounting for government grants and disclosure of government assistance		●		

²⁶ Although IFRS 7 is applied without adaptation, and IFRS 9 is applied with adaptations relating solely to financial instruments within government, IFRS 15 and IAS 32 have been adapted for the public sector context to define what is considered to be a contract and a financial instrument. For further details see Table 8.2.

²⁷ Although IFRS 13 is applied without adaptation, IAS 16 and IAS 38 have been adapted and interpreted for the public sector context to limit the circumstances in which a valuation is prepared under IFRS 13. For further details see Table 8.2.

International Standard	Applies without adaptation or interpretation	Applies as interpreted for public sector	Applies as adapted for public sector	Different adaptations or interpretation for ALBs
IAS 21 The effects of changes in foreign exchange rates		●		
IAS 23 Borrowing Costs		●		
IAS 24 Related party disclosures		●		
IAS 26 Accounting and Reporting by Retirement Benefit Plans		●	●	
IAS 27 Separate Financial Statements			●	●
IAS 28 Investments in Associates and Joint Ventures			●	●
IAS 29 Financial reporting in hyper-inflationary economies		●		
IAS 32 Financial Instruments: Disclosure and Presentation ²⁶		●	●	
IAS 33 Earnings per share	●			
IAS 34 Interim Financial Reporting	●			
IAS 36 Impairment of Assets		●	●	
IAS 37 Provisions, Contingent Liabilities and Contingent Assets		●	●	
IAS 38 Intangible Assets			●	
IAS 40 Investment Property		●		
IAS 41 Agriculture	●			

8.2 Interpretations and adaptations for the public sector context

8.2.1 Table 2 provides details of those adaptations and interpretations for the public sector context. Where an adaptation or interpretation to a standard results in an inconsistency with a related interpretation issued by the IFRS Interpretations Committee (IFRIC) or Standards Interpretations Committee (SIC), that interpretation is similarly adapted or interpreted. In all other case, IFRIC and SIC Interpretations will apply in full.

8.2.2 [Chapter 13](#) of this Manual provides additional guidance on adaptations and interpretations for the Whole of Government Accounts.

Table 2

IFRS 1 <i>First-time Adoption of International Financial Reporting Standards</i>	
Interpretations	This Manual requires financial statements to be prepared under the historical cost convention, modified by the revaluation of assets and liabilities to fair value as determined by the relevant account standard, and so the elections available in IFRS 1.16, 17 and 18 are not relevant.
IFRS 3 <i>Business Combinations</i>	
Interpretations	<p>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. Therefore IFRS 3 applies only to combinations involving an entity or entities within the public sector with an entity outside the sector. (IFRS 3 para 2(c))</p> <p>Chapter 9 provides guidance on the accounting for a 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.</p>
IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i>	
Interpretations	In order to qualify as 'discontinued operations', the activities must cease completely: that is, responsibilities transferred from one part of the public sector to another (such as machinery of government changes) are not discontinued operations. (IFRS 5 para 32)
IFRS 9 <i>Financial Instruments</i>	
Interpretations	<ol style="list-style-type: none"> (1) Any financial instrument that is not held in furtherance of the entity's objectives but is held on behalf of government more generally should be accounted for in a separate Trust Statement. Entities should discuss such cases with the relevant authorities. (2) Special or 'golden' shares, being those shares retained in businesses that have been privatised but in which the department wishes to retain a regulatory interest or reserve power, should not be recognised in the Statement of Financial Position. (3) PDC should be reported at historical cost, less any impairment. (4) Where future cash flows are discounted to measure fair value, entities should use the higher of the rate intrinsic to the financial instrument and the real financial instrument discount rate set by HM Treasury (promulgated in Public Expenditure System (PES) papers) as applied to the flows expressed in current prices. (5) The accounting policy choice allowed under IFRS 9 which allows entities upon transition to restate prior periods if, and only if, it is possible without the use of hindsight has been withdrawn. All entities applying this Manual shall recognise any difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application in the opening retained earnings (or other component of equity, as appropriate) of the annual reporting period that includes the date of initial application. (IFRS 9 para 7.2.15) (6) The accounting policy choice allowed under IFRS 9 for long term trade receivables, contract assets which do contain a significant financing

	<p>component (in accordance with IFRS 15), and lease receivables within the scope of IAS 17 has been withdrawn and entities should always recognise a loss allowance at an amount equal to lifetime Expected Credit Losses. All entities applying this Manual should utilise IFRS 9's simplified approach to impairment for relevant assets. (IFRS 9 para 5.5.15(a)(ii) and para 5.5.15(b))</p> <p>(7) The accounting policy choice allowed under IFRS 9 which allows entities to either continue to apply the hedge accounting requirements of IAS 39 (until the macro hedging project is finalised) or to apply IFRS 9 has been withdrawn. All entities applying this Manual should apply IFRS 9 hedge accounting requirements (with the scope exception only for fair value macro hedges of interest rate risk). (IFRS 9 para 7.2.21)</p>
Adaptations	<p>(1) Balances with core central government departments (including their executive agencies), the Government's Exchequer Funds²⁸, the Bank of England, and Government Banking Service are excluded from recognising stage-1 and stage-2 impairments. In addition, any Government Exchequer Funds' assets where repayment is ensured by primary legislation are also excluded from recognising stage-1 and stage-2 impairments. ALBs are excluded from the exemption unless they are explicitly covered by guarantee given by their parent department.</p> <p>(2) Balances between a parent department and its executive agencies and ALBs are not covered by the exception from recognising ECLs noted in IFRS 9 adaptation (1) above.</p> <p>(3) Liabilities with core central government departments (including their executive agencies), the Government's Exchequer Funds, and the Bank of England are assessed as having zero 'own credit risk' by the entities holding these liabilities.</p> <p>(4) Where an entity issues a financial guarantee below fair value and where no active market or observable equivalent exists such that it would follow B5.1.2A section (b), then it should instead measure the financial guarantees at initial recognition, and at reporting period end, at an amount equal to lifetime expected credit loss (ECL) in accordance with the requirements of IFRS 9. Initial measurement and subsequent measurement are to be recognised through profit and loss. For the purpose of applying Interpretation (4) of the FReM's interpretation of IFRS 9, and for the purpose of determining suitable disclosures under IFRS 7, the department shall treat them as if ECL were Fair Value. In the case of Interpretation (4), if it can be evidenced that the intrinsic rate cannot be reliably determined, then the HM Treasury Financial Instrument rate should be used.</p> <p>(5) Where an entity issues a financial instrument, other than a financial guarantee, at an amount that is different to fair value, where recognising at fair value would not result in a gain or profit and where no active market or observable equivalent exists such that it would follow B5.1.2A section (b), then the entity should instead measure the instrument at initial recognition at fair value.</p>

²⁸ Government's Exchequer Funds include: the National Loans Fund; all Consolidated Funds; the Contingencies Fund; the Exchange Equalisation Account; the Debt Management Account; the Public Works Loan Board; and Commissioners for the Reduction of the National Debt.

IFRS 10 Consolidated Financial Statements	
Adaptations	<p>The departmental boundary is similar to the concept of a group under generally accepted accounting practice but is based on control criteria used by the Office for National Statistics to determine the sector classification of the relevant sponsored bodies. Departments will account for subsidiaries under IFRS 10 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.</p> <p>Agencies should follow the requirements of IFRS 10 only if the subsidiaries are within the controlling department's consolidation boundary.</p> <p>ALBs should apply IFRS 10 without adaptation.</p> <p>Chapters 4 and 9 provide guidance on the departmental accounting boundary and application of consolidation standards.</p>
IFRS 11 Joint Arrangements	
Adaptations	<p>In accordance with the principles set out in Managing Public Money, executive non-departmental and similar public bodies classified to central government by the ONS will normally be controlled for accountability purposes by only one department in accordance with IFRS 10, and not as a joint arrangement under IFRS 11.</p> <p>Where a department has an investment in another public sector entity that has not been designated for consolidation, it should be reported following the requirements of IFRS 9. This includes all interests in bodies classified as public corporations by the ONS, which are within the scope of Managing Public Money principles.</p> <p>Agencies should follow the requirements of IFRS 11 with respect to public sector entities only if the entities are within the controlling department's consolidation boundary.</p> <p>Departments and agencies should apply IFRS 11 without adaptation to bodies classified to the private sector and rest of the world by the ONS.</p> <p>ALBs should apply IFRS 11 without adaptation.</p> <p>Chapters 4 and 9 provide guidance on the departmental accounting boundary and application of consolidation standards.</p>
IFRS 12 Disclosure of Interests in Other Entities	
Adaptations	<p>Disclosures of interests in other entities will be subject to the adaptations for departments and agencies to IFRS 10, IFRS 11, IAS 27 and IAS 28.</p> <p>Chapters 4 and 9 provide guidance on the departmental accounting boundary and application of consolidation standards.</p>
IFRS 15 Revenue from Contracts with Customers	
Adaptations	<p>1. The definition of a contract is expanded to include legislation and regulations which enables an entity to receive cash or another financial asset from another entity (other than income classified as a tax by the Office of National Statistics). The costs of preparing the legislation or regulations does not amount to assets under IFRS 15 (91-94).</p>

	<p>2. Where by statute or Treasury consent, an entity is permitted to retain the revenue from taxation, fines and penalties, this revenue shall be treated as arising from a contract and accounted for under IFRS 15 (15a).</p> <p>However, where entities receive revenue through taxation, fines and penalties which is wholly non-refundable and leads to no obligations, entities are not required to wait until all, or substantially all, of the promised revenue has been received to recognise the revenue. In these instances, entities should recognise revenue when an equivalent to a taxable event has occurred, the revenue can be measured reliably, and it is probable that the assisted economic benefits from the taxable event will flow to the collecting entity. All these elements are required to be satisfied.</p>
Interpretations	<p>Upon transition, the following accounting policy choice to retrospectively restate in accordance with IAS 8 has been withdrawn. All entities applying the FReM shall recognise the difference between the previous carrying amount and the carrying amount at the beginning on the annual reporting period that includes the date of initial application in the opening general fund (or equivalent component of equity) within taxpayers' equity (or other component of equity, as appropriate) per IFRS 15 C3(b). In using this transition approach</p> <ul style="list-style-type: none"> • The election to apply this Standard retrospectively only to contracts that are not completed contracts at the date of initial application should be exercised. • The practical expedient available for contract modifications (C7A) should be exercised. <p>Further application guidance on accounting for revenue, as well as taxes and duties, is included in chapter 11.</p>
IFRS 16 Leases	
Adaptations	<p>1. IFRS 16, as adapted and interpreted by this Manual, will be effective from 1 April 2022, with two exceptions.</p> <p>Early adoption from 1 April 2019 is available for entities where the following criteria are met:</p> <ul style="list-style-type: none"> b) the entity has at least one subsidiary that, under the Companies Act, is required to follow IFRS as adopted by the EU, and the total assets of the subsidiary comprise at least 10% of the total assets at the group level; c) the subsidiary (or subsidiaries) described above have operating lease commitments that comprise at least 10% of the operating lease commitments at the group level; and d) approval to early adopt has been received from HM Treasury. <p>Early adoption from 1 April 2021 is available for entities where approval has been received from the relevant authority.</p>

	<p>2. The definition of a contract is expanded to include intra-UK government agreements where non-performance may not be enforceable by law.</p> <p>3. Peppercorn leases are defined as leases for which the consideration paid is nil or nominal (that is, significantly below market value). Peppercorn leases are in the scope of IFRS 16 if they meet the definition of a lease in all aspects apart from containing consideration. All lessees shall account for peppercorn leases using the following criteria:</p> <ul style="list-style-type: none"> • Recognise a right-of-use asset and initially measure it at current value in existing use or fair value, depending on whether the right-of-use asset will be held for its service potential and as set out in paragraphs 10.1.4-10.1.6. However, if the right-of-use asset meets the definition of a heritage asset, it should be initially measured in accordance with paragraphs 10.1.35-10.1.40. • Recognise a lease liability measured in accordance with IFRS 16. • Recognise any difference between the carrying amount of the right-of-use asset and the lease liability as income as required by IAS 20 as interpreted in this Manual. • Subsequently measure the right-of-use asset following the principles of IFRS 16 as adapted and interpreted in this Manual. • Upon transition, any peppercorn leases that were not previously classified as finance leases under IAS 17 shall be recognised as follows²⁹: <ul style="list-style-type: none"> • The right-of-use asset shall be measured at current value in existing use or fair value, depending on whether the right-of-use asset will be held for its service potential and as set out in paragraphs 10.1.4-10.1.6. However, if the right-of-use asset meets the definition of a heritage asset, it should be initially measured in accordance with paragraphs 10.1.35-10.1.40. • The lease liability shall be measured at the present value of lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application. • The difference between the carrying amount of the right-of-use asset and lease liability shall be included as part of the adjustment to the opening balances of taxpayers' equity (or other component of equity, as appropriate) per IFRS 16 (C5(b)).
Interpretations	<p>1. The option to apply the election in IFRS 16 (5(a)) has been withdrawn. All entities must apply the recognition and measurement exemption for short-term leases in accordance with IFRS 16 (6-8).</p> <p>2. Where lessees cannot readily determine the interest rate implicit in the lease, they are instead required to use the HM Treasury discount rates promulgated in PES papers as their incremental borrowing rate. However, if</p>

²⁹ This includes any peppercorn leases that previously were classified as operating leases under IAS 17, or were argued to be outside the scope of IAS 17 because they did not include a payment, or series of payments

	<p>an entity can demonstrate that another discount rate would more accurately represent their incremental borrowing rate (for example, if they undertake external borrowing independently of the Exchequer), they shall use that discount rate as their incremental borrowing rate.</p> <p>3. The subsequent measurement basis for all right-of-use assets shall be consistent with the principles for subsequent measurement of property, plant and equipment set out in the adaptations to IAS 16 in this Manual. Chapter 10.2 to the FReM sets out how the apply these principles to right-of-use assets.</p> <p>4. The option to reassess whether a contract is, or contains, a lease at the date of initial application has been withdrawn. All entities shall use the practical expedient detailed in IFRS 16 (C3) (for peppercorn leases, see adaptation 2 above).³⁰</p> <p>5. Upon transition, the accounting policy choice to apply IFRS 16 retrospectively to each prior period presented in accordance with IAS 8 has been withdrawn. All entities applying this Manual shall recognise the cumulative effects of initially applying IFRS 16 recognised at the date of initial application as an adjustment to the opening balances of taxpayers' equity (or other component of equity, as appropriate) per IFRS 16(C5(b)).</p> <p>6. Upon transition, entities shall measure the right-of-use asset for leases previously classified as operating leases per IFRS 16((C8 (b)(ii))) at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application.</p> <p>7. Upon transition, all entities applying this Manual shall apply the following options for leases previously classified as operating leases:</p> <ul style="list-style-type: none"> • No adjustments for leases for which the underlying asset is of low value that will be accounted for applying IFRS 16 (6). (IFRS 16 C9 (a)) • No adjustment for leases for which the lease term ends within 12 months of the date of initial application (with a requirement to include the cost associated with those leases in the short-term lease expense disclosure). (C10 (c)) • Use hindsight in determining the lease term if the contract contains options to extend or terminate the lease. (C10 (e))
IAS 1 Presentation of Financial Statements	

³⁰ This presumes that entities have been applying the guidance in IAS 17 and IFRIC 4 appropriately in the past. Any known misapplication of the definition of a lease guidance should be corrected as a prior period error in accordance with IAS 8 unless an entity has explicit approval from the relevant authority to do otherwise.

Interpretations	<p>(1) References to 'present fairly' and to 'fair presentation' should be read to mean 'give a true and fair view' and 'truthful and fair presentation' to comply with the requirements of the Companies Act 2006.</p> <p>(2) In addition to naming the legislative authority for producing the accounts, the notes to the accounts shall disclose the basis of preparation of the financial statements as being in accordance with the FReM. (IAS 1 para 112)</p> <p>(3) Going concern is interpreted for the public sector context (IAS 1 paras 25-26):</p> <ul style="list-style-type: none"> • for non-trading entities, the anticipated continuation of the provision of a service in the future, as evidenced by inclusion of financial provision for that service in published documents, is normally sufficient evidence of going concern. However, a trading entity needs to consider whether it is appropriate to continue to prepare its financial statements on a going concern basis where it is being, or is likely to be, wound up, • Sponsored entities whose statements of financial position show total net liabilities should prepare their financial statements on the going concern basis unless, after discussion with their sponsors, the going concern basis is deemed in appropriate, and • Where an entity ceases to exist, it should consider whether or not its services will continue to be provided (using the same assets, by another public sector entity) in determining whether to use the concept of going concern for the final set of financial statements. <p>(4) IAS 1 requires entities to prepare a Statement of Comprehensive Income. Departments, NDPBs and Trading Funds should continue to follow the guidance in the FReM. Departments and NDPBs shall prepare a Statement of Comprehensive Net Expenditure as appropriate. Trading Funds shall prepare a Statement of Comprehensive Income. (IAS 1 para 10(b))</p> <p>(5) The financing of public sector entities is ultimately tax-based and an IAS 1-based notion of capital does not apply to many of them. Capital disclosures should be given only with the agreement of the relevant authority. (IAS 1 paras 134-136)</p> <p>(6) 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 (IAS 1 para 60) is withdrawn.</p> <p>(7) The IAS 1 comparative information requirements should be applied in full except that reporting entities should note that a decision on whether to include corresponding amounts in disclosures specific to government departments and agencies (for example, in relation to information on the Statement of Parliamentary Supply) will be taken on a case-by-case basis. Additionally, the Statement of Changes in Taxpayers' Equity for a departmental group shall include columns for the core department and agencies, and the consolidated group (usually core department, agencies and NDPBs). (IAS 1 para 38)</p> <p>Chapter 4 provides application guidance on the form and content of the annual report and accounts and additional reporting requirements.</p>
IAS 2 Inventories	

Interpretations	<p>In addition to the types of inventories identified in IAS 2, central government has categories of inventories for which IAS 2 may not adequately cover the accounting treatment.</p> <p>Chapter 10 provides guidance on the treatment of stockpile goods and military reserve inventories; confiscated, seized and forfeited property; and goods held under price support programmes.</p>
IAS 7 Statement of Cash Flows	
Interpretations	<p>Departments should follow the format of the Statement of Cash Flows in IAS 7 but should include at the foot of the statement those cash flows with the Consolidated Fund.</p> <p>Chapter 4 details the required format of the Statement of Cash Flows.</p>
IAS 10 Events after the Reporting Period	
Interpretations	<p>(1) Public Dividend Capital is not a financial instrument within the meaning of IAS 32. Unpaid dividends in respect of Public Dividend Capital shall continue to be recognised as liabilities as the reporting period. (IAS 10 paras 12-13)</p> <p>(2) The date of the Accounting Officer's authorisation for issue of the financial statements of the reporting entities covered by this Manual is normally the same as the date of the Certificate and Report of the Comptroller and Auditor General. The date of authorisation for issue must be included in the Annual Report and Accounts, but not on the title page. (IAS 10 paras 17-18)</p>
IAS 16 Property, Plant and Equipment	
Adaptations	<p>IAS 16 is adapted to specify the following valuation bases for property, plant and equipment:</p> <ul style="list-style-type: none"> - Assets which are held for their service potential (i.e. operational assets) and are in use should be measured at current value in existing use. For non-specialised assets current value in existing use should be interpreted as market value for existing use. In the RICS Red Book, this is defined as Existing Use Value (EUV). For specialised assets current value in existing use should be interpreted as the present value of the asset's remaining service potential, which can be assumed to be at least equal to the cost of replacing that service potential. - Assets which were most recently held for their service potential but are surplus should be valued at current value in existing use as above if there are restrictions on the entity or the asset which would prevent access to the market at the reporting date. If the entity could access the market, then the surplus asset should be valued at fair value using IFRS 13. - Assets which are not held for their service potential should be valued in accordance with IFRS 5 or IAS 40 depending on whether the asset is actively held for sale. Where such assets are surplus and do not fall within the scope of IFRS 5 or IAS 40, they should be valued at fair value applying IFRS 13.
Interpretations	<p>(1) All tangible non-current assets shall be carried at either current value in existing use or fair value at the reporting date - that is, the option given in IAS 16 to measure at cost has been withdrawn, as has the option to value only certain classes of assets. (IAS 16 para 29)</p>

	<p>(2) It is not necessary to disclose the historical cost carrying amounts (where available)</p> <p>Further application guidance on accounting for property, plant and equipment, including heritage assets, networked assets and PPP arrangements, is included in chapter 10.</p>
IAS 19 Employee benefits	
Adaptations	<p>(1) The requirements of IAS 19 are to apply to the accounts of the pension schemes themselves as well as to the reporting entities and reportable activities covered by the requirements of the FReM. This includes relevant disclosure requirements. (IAS 19 para 3)</p> <p>(2) In the financial statements of the pension schemes only, contributions from employer and employees are to be shown as income in the statement of comprehensive net expenditure rather than as, respectively, a credit to the pension liability or a deduction from the current service cost. As a consequence, the pension liability will not reflect contributions.</p>
Interpretations	<p>(1) Employers whose employees are members of the pension schemes listed in paragraph 12.1.1 (including the NHS superannuation scheme) shall account for the scheme as a defined contribution plan.</p> <p>(2) IAS 19 requires the present value of defined benefit obligations and, if applicable the fair value of the plan's assets to be determined with sufficient regularity that the amounts recognised in the financial statements do not differ materially from those determined at the reporting period date. This shall be interpreted to mean that the period between formal actuarial valuations shall be four years, with approximate assessments in intervening years. The results of the actuarial valuations may not necessarily feed into the annual report and accounts in the same financial year due to timing differences; instead, entities must ensure the IAS 19 para 58 requirement of amounts recognised being materially correct is met. Acceptable approximations shall include adjusting full valuation results using the latest available membership data. (IAS 19 para 58)</p> <p>(3) The application of a discount rate advised annually by HM Treasury will not apply to funded schemes within central government. Reporting entities with funded schemes should use a discount rate in accordance with IAS 19 as advised by the scheme's actuary. (IAS 19 para 83)</p> <p>(4) Where a central government entity has a share of a local government (or other) pension scheme liability on its statement of financial position, then that entity will use a discount rate determined by the appropriate authority in valuing its share and not the rate advised annually by HM Treasury. (IAS 19 para 83)</p> <p>(5) Voluntary early retirements under scheme rules will be discounted at the pension's rate and not at the provisions rate.</p>
IAS 20 Accounting for Government Grants and Disclosure of Government Assistance	
Interpretations	<p>(1) The option provided in IAS 20 to offset a grant for acquisitions of an asset against the cost of the asset has been withdrawn. (IAS 20 paras 24-27)</p> <p>(2) The option provided in IAS 20 to defer grant income relating to an asset is restricted to income where the funder imposes a condition. Where assets are financed by government grant (not a grant from a sponsoring</p>

	<p>department to an NDPB) or donation (including lottery funding), the funding element is recognised as income and taken through the Statement of Comprehensive Net Expenditure. To defer this income, a condition imposed by the funder must be: a requirement that the future economic benefits embodied in the grant/donation are consumed as specified by the grantor/donor or must be returned to them, e.g. a grant that is conditional on the construction of an asset. Trading Funds, where they have the consent of the Relevant Authority, need not apply this interpretation.</p> <p>(3) A grant, contribution or donated asset may be received subject to a condition that it be returned to the transferor if a specified future event does or does not occur (for example, a grant may need to be returned if the authority ceases to use the asset purchased with that grant for a purpose specified by the transferor). In these cases, a return obligation does not arise until such time as it is expected that the condition will be breached and a liability is not recognised until that time. Such conditions do not prevent the grant, contribution or donated asset being recognised as income in the Statement of Comprehensive Net Expenditure. (IAS 20 para 32)</p> <p>(4) Grant-in-aid is provided to match the recipient's cash needs and is to be accounted for on a cash basis. Any exceptions to this treatment must be agreed by the sponsoring department and the relevant authority.</p> <p>Chapter 11 provides application guidance on distinguishing between income and financing, the treatment of Supply, grants from UK government entities and the European Union, transactions with the Consolidated Fund and the Apprenticeship Levy</p>
IAS 21 The Effects of Changes in Foreign Exchange Rates	
Interpretations	The presentational currency will be the same as the functional currency i.e. pounds sterling. (IAS 21 paras 18-19 and 38)
IAS 23 Borrowing Costs	
Interpretations	Borrowing costs in respect of qualifying assets held at fair value shall be expensed. (IAS 23 para 4(a))
IAS 24 Related Party Disclosures	
Interpretations	<p>(1) For the purposes of IAS 24.9(a), the related party will be one of those defined in paragraph 6.4.3.</p> <p>(2) Charitable ALBs may apply the general principle of exemption from related party disclosure in respect of trustees acting as agents of the charity, in accordance with the parameters contained within the Charities SORP.</p> <p>(3) Reporting entities should give the name of the parent department (if any), a note on the main entities within government with which the entity has had dealings (no information needs to be given about these transactions), and details of material transactions between the entity and individuals who are regarded as related parties. A suggested wording is in Annex 2. (IAS 24 paras 25-26)</p> <p>(4) The requirement to disclose the compensation paid to management, expense allowances and similar items paid in the ordinary course of an entity's operations will be satisfied by the disclosures made in the notes to the accounts and in the Remuneration Report. (IAS 24 para 17)</p>

	(5) In considering materiality, regard should be had to the definition in IAS 1, which requires materiality to be judged “in the surrounding circumstances”. Materiality should thus be judged from the viewpoint of both the entity and the related party.
IAS 26 Accounting and Reporting by Retirement Benefit Plans	
Adaptations	IAS 26 does not apply to forms of employment benefit other than retirement benefits. However, where schemes currently report separately transactions relating to termination benefits (also known as early departure costs or compensation payments) they should continue to do so. The treatment of such costs will depend on whether the scheme acts as a principal or an agent, and whether or not the early departure costs (however described) are regarded as retirement benefits and included within the pension provision.
Interpretations	<p>(1) Paragraph 18 of IAS 26 allows the present value of the expected payments by a retirement benefit plan to be calculated and reported using either current salary levels or projected salary levels. The pension schemes listed in paragraph 12.1.1 are to calculate and report the present value of the expected payments using projected salary levels; that is, the option of using current salary levels is not available. (IAS 26 para 18)</p> <p>(2) Paragraph 17 of IAS 26 allows information concerning the actuarially determined present value of promised retirement benefits to be disclosed:</p> <ul style="list-style-type: none"> a. as part of the statement of net assets, b. by way of note, or c. in a separate actuarial report which is attached to the accounts. <p>The pension schemes listed in paragraph 12.1.1 are to disclose the actuarially determined present value of promised retirement benefits within the statement of financial position; that is, options (b) and (c) are not available. (IAS 26 para 17)</p> <p>Chapter 12 provides guidance on the accounting for termination benefits, the content for pension scheme financial statements and the accounting for additional voluntary contributions</p>
IAS 27 Separate Financial Statements	
Adaptations	The presentation of separate, non-consolidated financial statements will only be applied in full if the investment has not been designated for consolidation by order of the relevant authority under statutory instrument. (IAS 27 para 2)
IAS 28 Investments in Associates	
Adaptations	<p>In accordance with the principles set out in Managing Public Money, executive non-departmental and similar public bodies classified to central government by the ONS will normally be controlled for accountability purposes by only one department. Therefore, the public sector entity will be included in one department’s consolidation order and will be consolidated by that department in accordance with IFRS 10.</p> <p>Where a department has an investment in another public sector entity that has not been designated for consolidation, it should be reported following the requirements of IFRS 9. This includes all interests in bodies classified as public corporations by the ONS, which are within the scope of Managing Public Money principles.</p>

	<p>Agencies should follow the requirements of IAS 28 with respect to public sector entities only if the entities are within the controlling department's consolidation boundary.</p> <p>Departments and agencies should apply IAS 28 without adaptation to bodies classified to the private sector and rest of the world by the ONS.</p> <p>NDPBs and trading funds should apply IAS 28 without adaptation.</p> <p><u>Chapter 4</u> provides guidance on the departmental accounting boundary and application of consolidation standards.</p>
IAS 29 Financial Reporting in Hyperinflationary Economies	
Interpretations	As all entities covered by the FReM have a functional currency of pounds sterling, HM Treasury will notify classification of the economy as hyperinflationary if appropriate.
IAS 32 Financial Instruments: Presentation	
Interpretations	Public Dividend Capital (PDC) is not an equity instrument as defined in the IAS. It should be presented as a form of financing in the Statement of Financial Position of the relevant entity. Dividends on PDC should be presented as a form of financing in the Statement of Comprehensive Net Expenditure and accounted for where appropriate in the Statement of Financial Position. PDC impairments should be presented in the Statement of Comprehensive Net Expenditure unless the impairment is a result of implementing a machinery of government change, where it should be presented in the Statement of Taxpayers Equity.
Adaptations	<p>References to 'contract' and 'contractual' within IAS 32 include legislations and regulations which:</p> <ul style="list-style-type: none"> • give rise to arrangements that in all other respects would meet the definition of a financial instrument under IAS 32.11; and, • do not give rise to transactions classified as a tax by the Office of National Statistics, except for revenue from taxation, fines and penalties that is recognised due to the IFRS 15 adaptation to the definition of a contract.
IAS 36 Impairment of Assets	
Adaptations	References in IAS 36 to the recognition of an impairment loss of a revalued asset being treated as a revaluation decrease to the extent that that impairment does not exceed the amount in the revaluation surplus for the same asset, are adapted such that only those impairment losses that do not result from a clear consumption of economic benefit or reduction of service potential (including as a result of loss or damage resulting from normal business operations) should be taken to the revaluation reserve. Impairment losses that arise from a clear consumption of economic benefit should be taken to the Statement of Comprehensive Net Expenditure. (IAS 36 paras 60 and 61)
Interpretations	Where an asset is not held for the purpose of generating cash flows, value in use is assumed to equal the cost of replacing the service potential provided by the asset, unless there has been a reduction in service potential. (IAS 36 para 30)

	Chapter 10 provides additional guidance on the classification of impairments for budgetary purposes and application guidance.
IAS 37 Provisions, Contingent Liabilities and Contingent Assets	
Interpretations	<p>Where the cash flows to be discounted are expressed in current prices, entities should use the real discount rates set by HM Treasury as promulgated in PES papers. (IAS 37 paras 46-47)</p> <p>N.B. Separate disclosure of information about a particular contingency need not be made if the information has a security marking.</p> <p>Chapter 6 details additional requirements for remote obligations outside the scope of IAS 37 to be reported to Parliament.</p>
IAS 38 Intangible Assets	
Adaptations	<p>Following the initial recognition of an intangible asset, for subsequent measurement IAS 38 permits the use of either the cost or revaluation model for each class of intangible asset. Where an active (homogeneous) market exists, intangible assets other than those that are held for sale should be carried at current value in existing use at the reporting period date – that is, the cost option given in IAS 38 has been withdrawn and the current value should be based on the market value in existing use. Where no active market exists, entities should revalue the asset, using indices or some suitable model, to the lower of depreciated replacement cost and value in use where the asset is income generating. Where there is no value in use, the asset should be valued using depreciated replacement cost. (IAS 38 para 72)</p> <p>Chapter 10 provides application guidance for Carbon Reduction Commitment (CRC) Energy Efficiency Scheme</p>
IAS 40 Investment Properties	
Interpretations	<p>All investment property should be accounted for under the fair value model - that is, the option given in IAS 40 to adopt the cost model has been withdrawn. (IAS 40 para 30)</p> <p>IAS 40 applies in full to all reporting entities covered by this Manual that hold (or are constructing or developing) properties only for the purpose of earning rentals or for capital appreciation or both. If earning rentals were an outcome of a regeneration policy, for example, the properties concerned would be accounted for under IAS 16 and not IAS 40. (IAS 40 paras 5 and 7)</p>

Part D: Further guidance for government annual reports and accounts

Chapter 9 – Further guidance on accounting boundaries

9.1 Business combinations

Applicability

- 9.1.1 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 as either a Transfer by Merger or as a Transfer by Absorption, as detailed below.
- 9.1.2 For the purposes of this manual, a function is defined as an identifiable business operation with an integrated set of activities and recognised assets and/ or liabilities that are capable of being conducted and managed to achieve the objectives of that business operation.
- 9.1.3 IFRS 3 applies to all combinations involving an entity or entities within the public sector with an entity outside the sector.
- 9.1.4 When a business combination has been incorrectly reported by preparers, IAS 8 should be applied in determining whether it is necessary to adjust retrospectively for material errors, as set out in [Chapter 4](#) of this Manual. Any prospective change to an entity's reporting boundary where the business combination is not under common control should apply IFRS 3 in full.

Transfer by Merger or Transfer by Absorption

- 9.1.5 The accounting treatment for transfers of function under common control should be determined by aligning the reporting with the accountability for financial performance. The underlying objective is to ensure the financial reporting supports the accountability for the transferring function, and to do so in a symmetrical way to ensure there is no transparency gap. A transfer may require both treatments at different levels.

Transfer by Merger

- 9.1.6 Transfer by Merger accounting should be applied at the group level for entities applying this Manual. That is, for transfers of function between departments within central government, but not between a UK central government department and the Welsh Government, Northern Ireland Assembly or Scottish Government, whose income and expenditure is controlled directly by parliamentary Supply processes (departmental group accounts).
- 9.1.7 As a Transfer by Merger, 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.

- 9.1.8** 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.
- 9.1.9** Restatement of comparatives, including that of the results for all the combining bodies (or functions) for the previous period, should be provided in accordance with IAS 1 as interpreted by this Manual. Comparatives should be adjusted as necessary to achieve uniformity of accounting policies and consistency of presentation.
- 9.1.10** Where an entity is subject to a machinery of government change and is accounted for using merger accounting the information required in the accountability report (refer to [chapter 6](#)) must also be restated when merger accounting is applied and where prior year comparative information is required, with the exception of FReM paragraph 6.2.1h. covering fair pay ratios.

Transfer by Absorption

- 9.1.11** All other transfers of function between public sector bodies should be accounted for as Transfers by Absorption. This includes transfers:
- a) to or from local government;
 - b) to or from public corporations;
 - c) between devolved governments and UK central government departments;
 - d) within a departmental boundary; and
 - e) reported by executive NDPB's, other arm's length bodies within central government and trading funds.
- 9.1.12** The carrying value of the assets and liabilities of the combining bodies or functions are not adjusted to fair value on consolidation. There should be no recognition of goodwill and no restatement of comparatives in the primary financial statements.
- 9.1.13** The recorded amounts of net assets should be brought into the financial statements of the transferee from the date of transfer.
- 9.1.14** The net asset/liability carrying value should be recorded as a non-operating gain/loss from the transfer of function, through net expenditure, with the transferor recording symmetrical entries. Revaluation reserves should be transferred in full, with the remaining balance transferred to the General Fund (or equivalent component of equity).
- 9.1.15** For all adjustments required to achieve uniformity of accounting policies, the double entry will be to the General Fund (or equivalent).
- 9.1.16** Additional guidance is found on gov.uk website: [Government financial reporting manual: application guidance - GOV.UK](#)

The guidance includes a decision-making flow chart which clarifies the accounting treatment where a transfer does not meet the definition of a function or is not under common control, and under what circumstances a transfer of function under common control should be accounted for as a Transfer by Merger or by Absorption.

Disclosure

- 9.1.17** 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. Where accounted for as a Transfer by Absorption, the reporting entity should apply judgment as to whether the additional disclosure of historical financial performance of the function should be provided, to enable users to understand the operational performance.
- 9.1.18** Transfers of function under common control can have a significant impact on the accounts, budgets and Estimates of the transferee if the data pertaining to the assets and liabilities of the transferring function are not accurate. It is in the interests of both the transferor and the transferee to ensure such data are accurate to prevent post-transfer disputes between the two parties.
- 9.1.19** Both the transferor and the transferee of a business combination under common control should apply a symmetrical accounting treatment for the transfer, though a transfer can involve both merger accounting and absorption accounting at different levels (for example an ALB is dissolved and its service split between two different departments; absorption accounting is applied by the ALB and merger accounting applied by the departments). A reporting entity that transfers functions to another reporting entity should also provide the same information about the transfer in its financial statements. Public bodies controlled by a parent entity should provide the necessary information required by the parent entity to meet the requirements set out in paragraphs **9.1.6** to **9.1.16**.
- 9.1.20** Where an entity's functions are wholly transferred into one or more other entities at a date other than 31 March, the entity should prepare closing accounts. The transferor should present additional information in the SoFP to provide clarity of the impact of the transfer on its assets, liabilities and equity. For example, the transferor could provide an additional statement of financial position to enable reporting of the pre- and post-transfer (i.e. nil balance sheet) position in closing audited accounts or provide additional narrative to explain the impact of the transfer.
- 9.1.21** Entities should disclose the entity or entities to which the transfers have been made.

Other requirements

- 9.1.22** Transfers of non-current assets that are not machinery of government changes or part of a transfer of functions should be transferred at fair value following the fair value measures in IFRS 3.
- 9.1.23** Any departure from the accounting treatments in **9.1.6** to **9.1.16** must be agreed with the relevant authority and applied symmetrically by the transferor and transferee.

Chapter 10 – Further guidance on accounting for assets and liabilities

10.1 Property, plant and equipment (PPE)

Valuations (excluding networked assets, donated assets and heritage assets)

- 10.1.1** In considering how best to apply the valuation requirements of IAS 16 so as to ensure that the Statement of Financial Position gives a true and fair view of the value of the assets at the reporting date, entities should consider the following guidance on property and non-property assets. The flowchart at the end of this section will assist in determining the appropriate accounting treatment of PPE excluding networked assets, donated assets and heritage assets.
- 10.1.2** Entities should value their PPE using the most appropriate valuation process. Such processes might include:
- a) a quinquennial valuation supplemented by either annual indexation or regular desktop valuation update
 - b) a quinquennial valuation supplemented by an interim professional valuation in year 3
 - c) annual valuations
 - d) a rolling programme of valuations
 - e) for non-property assets only, appropriate indices
- 10.1.3** It is for valuers, using the Royal Institution of Chartered Surveyors; (RICS) 'Red Book' (RICS Valuation - Professional Standards), and following discussions with the entity, to determine the most appropriate methodology for obtaining either a current value in existing use or a fair value.
- 10.1.4** Assets which are held for their service potential (i.e. operational assets used to deliver either front line services or back office functions) should be measured at their current value in existing use. For non-specialised assets current value in existing use should be interpreted as market value in existing use which is defined in the RICS Red Book as Existing Use Value (EUV). For specialised assets current value in existing use should be interpreted as the present value of the asset's remaining service potential, which can be assumed to be at least equal to the cost of replacing that service potential.
- 10.1.5** Assets which were most recently held for their service potential but are surplus should be valued at current value in existing use as per paragraph 10.1.4 if there are restrictions on the entity or the asset which would prevent access to the market at the reporting date. If the entity could access the market, then the surplus asset should be valued at fair value using IFRS 13.
- 10.1.6** In determining whether an asset which is not in use is surplus, management should assess whether there is a clear plan to bring the asset back into future use as an operational asset. Where there is a clear plan, the asset is not surplus and the

current value in existing use should be maintained. Otherwise, the asset should be assessed as being surplus and valued under IFRS 13.

10.1.7 Assets which are not held for their service potential should be valued in accordance with IFRS 5 or IAS 40 depending on whether the asset is actively held for sale.

10.1.8 Where an asset is not being used to deliver services and there is no plan to bring it back into use, with no restrictions on sale, and it does not meet the IAS 40 and IFRS 5 criteria, these assets are surplus and should be valued at fair value using IFRS 13.

10.1.9 Where a valuer, following discussion with the entity, determined that depreciated replacement cost (DRC) is the most appropriate measure of current value in existing use, entities and their valuers should have regard to the guidance contained in the most recent RICS Red Book.

10.1.10 Where DRC is used as the valuation methodology:

- a) entities should normally value a modern equivalent asset in line with the Red Book. Any plans to value a reproduction of the existing asset instead should be discussed with the relevant authority (through sponsoring bodies where appropriate) to determine whether such an approach is appropriate to the entity's circumstances.
- b) entities should use the 'instant build' approach;
- c) the choice of an alternative site will normally hinge on the policy in respect of the locational requirements of the service that is being provided.

10.1.11 The cost of enhancements to existing assets (such as building of a new wing within an existing prison) should be capitalised during the construction phase as an asset under construction. At the first valuation after the asset is brought into use, any write down of cost should be treated as an impairment and charged to the Statement of Comprehensive Net Expenditure.

10.1.12 Entities should:

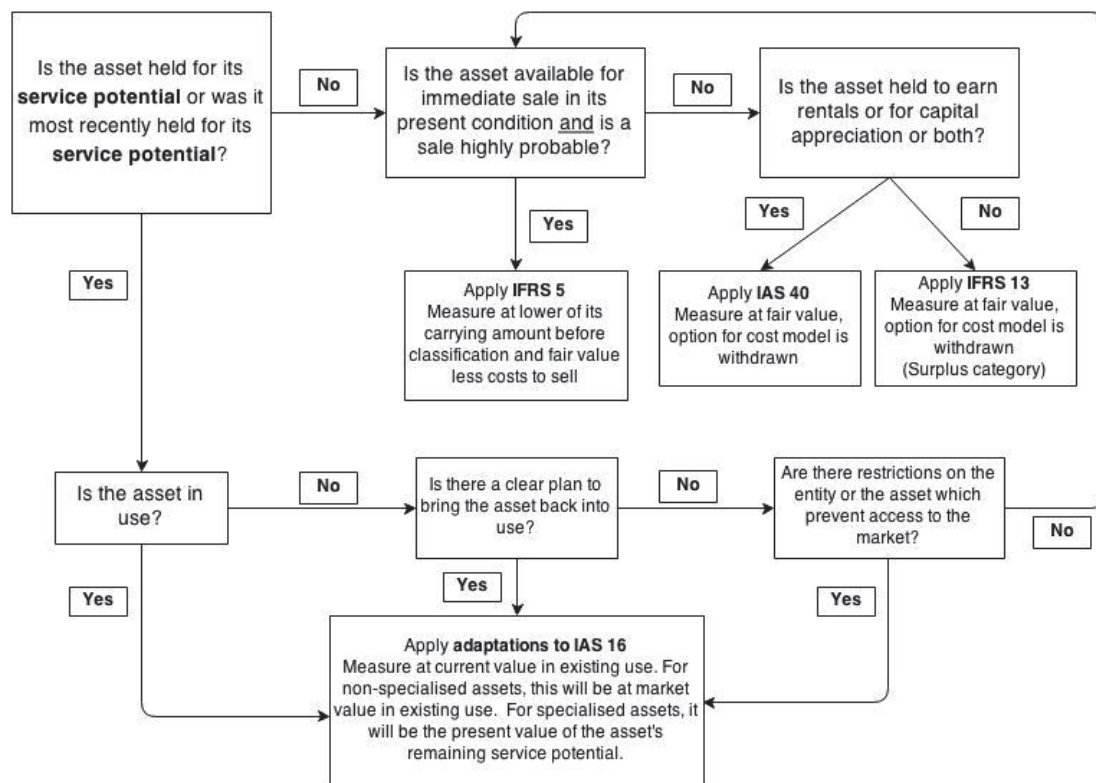
- a) disclose in the accounting policies note the fact that assets are carried at current value in existing use or fair value. Entities should also provide information about the approach to valuing their estates, including a statement (where applicable) that alternative sites have been used in DRC valuations;
- b) disclose in the notes on tangible non-current assets: the date of the last valuations of those assets that are subject to revaluation, and the names and qualifications of the valuer; and
- c) discuss in the Management Commentary, where they hold extensive estates: their estate management strategy; the indicative alternative use values provided by the valuer as part of the routine valuation work, and what those alternative use values mean in terms of their estate management policy.

10.1.13 As part of the Property, Plant and Equipment note entities are required, in the year the asset is acquired, to separately disclose the current value in existing use or fair value of those assets funded by government grant, donation or lottery funding. Where the funder provides cash, rather than the physical assets, any difference between the cash provided and the fair value of the assets acquired should also be disclosed.

10.1.14 Entities may elect to adopt a depreciated historical cost basis as a proxy for current value in existing use or fair value for assets that have short useful lives or low values

(or both). For depreciated historical cost to be considered as a proxy for current value in existing use or fair value, the useful life must be a realistic reflection of the life of the asset and the depreciation method used must provide a realistic reflection of the consumption of that asset class. If depreciated historical cost is used as a proxy for current value in existing use or fair value then this fact should be disclosed, including the classes of assets where it has been used (where appropriate), the reasons why, and information about any significant estimation techniques (where applicable).

Flowchart of valuation for property, plant and equipment (excluding networked assets, donated assets and heritage assets)



Networked assets

10.1.15 Networked assets comprise assets that form part of an integrated network servicing a significant geographical area. These assets usually display some or all of the following characteristics:

- they are part of a system or network;
- they are specialised in nature and do not have alternative uses;
- they are immovable; and
- they may be subject to constraints on disposal.

Examples of networked assets include road networks, sewer systems, water and power supply systems and communications networks.

The road network

- 10.1.16** Land, Structures and Communications will be accounted for following the guidance in IAS 16.
- 10.1.17** The road surface asset managed by each of the highways authorities in England, Scotland, Wales and Northern Ireland will be recognised as a single asset by each such authority following the additional guidance in this manual.
- 10.1.18** The road surface asset will be held at depreciated replacement cost based on service potential.
- 10.1.19** Subsequent expenditure on the road surface will be capitalised where it enhances or replaces the service potential. Spending that does not replace or enhance service potential will be expensed.
- 10.1.20** The annual depreciation charge for the road surface will be the value of the service potential replaced through the maintenance programme plus, or minus, any adjustment resulting from the annual condition survey. The value of maintenance work undertaken will be used as an indication of the value of the replaced part. Where the condition survey shows that deterioration in the road surface exceeds the service potential replaced by the maintenance programme the additional deterioration will be taken to the Statement of Comprehensive Net Expenditure as part of the depreciation charge. Where the condition survey shows that deterioration in the road surface is less than the service potential replaced by the maintenance programme the depreciation charge will be reduced by the excess maintenance.
- 10.1.21** The road surface will be subject to annual valuations as measured by suitable indices. Upward movements in value will be taken to the revaluation reserve and included in comprehensive net expenditure. Downward movements in value will be set against any credit balance held in the revaluation reserve until this credit is exhausted and thereafter to net operating expenditure.
- 10.1.22** The road surface will be subject to an annual impairment review. Impairments will be recognised as required by IAS 36 Impairment of Assets as applied by the manual.

Other Infrastructure

- 10.1.23** Where bodies hold other networked assets the road surface accounting methodology detailed above may be used where it is appropriate to do so. However, approval to use the road surface methodology should first be obtained from the relevant authority.

Donated assets

- 10.1.24** Assets donated by third parties (see also paragraph **10.1.30** on asset transfers), either by gift of the asset or by way of funds to acquire assets (including national lottery-funded assets) should be capitalised at current value in existing use or fair value on receipt, depending on whether the assets will be held for their service potential and as set out in paragraphs **10.1.4** to **10.1.6**. The funding element should be recognised as income as required by IAS 20 as interpreted in this Manual.
- 10.1.25** To qualify for treatment as a donated asset there should be no consideration given in return.
- 10.1.26** Donated assets do not include:
- a) assets financed by grant-in-aid;

- b) the subsequent capitalised expenditure on a donated asset which is capitalised;
- c) assets constructed or contributed to by a developer to benefit the developer's business;
- d) assets accepted in lieu of tax.

10.1.27 The assets listed in **10.1.26** should be accounted for in accordance with IAS 16 in the same way as other assets of that general type.

10.1.28 Donated assets should be revalued, depreciated and subject to impairment review in the same way as other non-current assets.

10.1.29 Details of any restrictions or conditions imposed by the donor on the use of the donated asset should be disclosed in a note to the financial statements.

Asset transfers

10.1.30 Entities may give or receive assets to/from another public sector body (including public sector bodies not covered by the requirements of this Manual) for no consideration. Assets acquired in this way will normally be recognized in accordance with IAS 20 as interpreted in this Manual. Entities should consult the relevant authority (through sponsoring bodies where appropriate) before entering into such a transaction.

10.1.31 Where the carrying value differs materially from the fair value and the assets are revalued as part of the transfer process, these revaluations shall occur **prior** to the transfer.

Heritage assets

Definition

10.1.32 A heritage asset is a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture. Heritage assets are those assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations. They are held by the reporting entity in pursuit of its overall objectives in relation to the maintenance of the heritage. Non-operational assets are those that are held primarily for this purpose. Operational heritage assets are those that, in addition to being held for their characteristics as part of the nation's heritage, are also used by the reporting entity for other activities or to provide other services (the most common example being buildings).

10.1.33 The reporting entity holding the asset should attest annually to the ongoing heritage credentials of its heritage assets. Heritage assets include historical buildings, archaeological sites, military and scientific equipment of historical importance, museum and gallery collections and works of art. Right-of-use assets can qualify as heritage assets.

10.1.34 In principle, heritage assets should be accounted for in the same way as any other asset under IAS 16. There are, however, certain characteristics associated with heritage assets that give rise to the need for interpretation of IAS 16:

- a) Their value to government and the public in cultural, environmental, educational and historical terms is unlikely to be fully reflected in a financial value derived from a market mechanism or price

- b) Established custom and, in many cases, primary statute and trustee obligations impose prohibitions or severe restrictions on disposal by sale
- c) They are often irreplaceable, and their value may increase over time even if their physical condition deteriorates
- d) They may require significant maintenance expenditure so that they can continue to be enjoyed by future generations
- e) Their life might be measured in hundreds of years
- f) Antiques and other works of arts held by reporting entities outside the main collections should be classified as heritage assets only when they fulfil the above requirements. Otherwise, antiques and other works of art should be accounted for in the same way as other assets

Recognition and measurement

10.1.35 Operational heritage assets should be valued in the same way as other assets of that general type (buildings, for example).

10.1.36 Non-operational heritage assets should be valued subject to the requirements set out in paragraphs **10.1.37** to **10.1.40** below.

10.1.37 Where information is available on the cost or fair value of heritage assets:

- a) they should be presented in the Statement of Financial Position separately from other tangible assets.
- b) the Statement of Financial Position or the notes to the accounts should identify separately those classes of heritage assets being reported at cost and those at fair value.
- c) changes in the valuation should be recognised in the Other Comprehensive Expenditure section of the Statement of Comprehensive Net Expenditure, except impairment losses that should be recognised in accordance with section [10.4](#) of this Manual.

10.1.38 The accounting convention in this manual is to recognise non-current assets at either current value in existing use or fair value but, where exceptionally, it is not practicable to obtain a fair value, the heritage assets may be reported at historical cost.

10.1.39 Where assets have previously been capitalised or are recently purchased, information on their cost or fair value will be available. Where this information is not available and cannot be obtained at a cost commensurate with the benefits to users of the financial statements, the assets will not be recognised in the Statement of Financial Position and the disclosure required by this manual should be made.

10.1.40 Valuations may be made by any method that is appropriate and relevant. There is no requirement for valuations to be carried out or verified by external valuers, nor is there any prescribed minimum period between valuations. However, where heritage assets are reported at valuation, the carrying amount should be reviewed with sufficient frequency to ensure the valuations remain current.

Depreciation and impairment

10.1.41 Depreciation is not required on heritage assets which have indefinite lives.

10.1.42 The carrying amount of an asset should be reviewed where there is evidence of impairment, for example, where it has suffered physical deterioration or breakage,

or new doubts arise as to its authenticity. Any impairment recognised should be dealt with in accordance with the recognition and measurement requirements of IAS 36 - 'Impairment of Assets'.

Donations

10.1.43 The receipt of donations of heritage assets should be recognised as income and taken through the Statement of Comprehensive Net Expenditure where there are no conditions specifically relating to the operating activities of the entity or recognised as deferred income in the Statement of Financial Position. Where exceptionally, it is not practicable to obtain a valuation for a donated heritage asset, the reasons why should be stated. Disclosures should also be provided on the nature and extent of significant donations.

Disclosures

10.1.44 The disclosures required for heritage assets are set out below and apply to all heritage assets:

- a) An entity's financial statements should contain an indication of the nature and scale of heritage assets held by the entity
- b) The financial statements should set out the entity's policy for the acquisition, preservation, management and disposal of heritage assets. This should include a description of the records maintained by the entity of its collection of heritage assets and information on the extent to which access to the assets is permitted. The information required by this paragraph may alternatively be provided in a document that is cross-referenced from the financial statements
- c) The accounting policies adopted for an entity's holding of heritage assets should be stated, including details of the measurement bases used
- d) For heritage assets that are not reported in the Statement of Financial Position, the reasons why should be explained and the notes to the financial statements should explain the significance and nature of those assets that are not reported in the Statement of Financial Position
- e) The disclosures relating to assets that are not reported in the Statement of Financial Position should aim to ensure that, when read in the context of information about capitalised assets, the financial statements provide useful and relevant information about the entity's overall holding of heritage assets

10.1.45 Where heritage assets are reported in the Statement of Financial Position, the following should be disclosed:

- a) the carrying amount of heritage assets at the beginning of the financial period and at the Statement of Financial Position date, including an analysis between those classes or groups of heritage assets that are reported at cost and those that are reported at valuation.
- b) where assets are reported at valuation, sufficient information to assist in an understanding of the valuations being reported and their significance.

This should include:

- i. the date of the valuation.
- ii. the methods used to produce the valuation.

- iii. whether the valuation was carried out by external valuers and, where this is the case, the valuer's name and professional qualification, if any.
- iv. any significant limitations on the valuation.

10.1.46 An example of a limitation to be disclosed under paragraph **10.1.45 (b) (iv)** would be where an asset has a particular provenance, the effect of which is not fully captured by valuation.

10.1.47 Information that is available to the entity and is helpful in assessing the value of those heritage assets that are not reported in the entity's Statement of Financial Position should be disclosed.

10.1.48 The financial statements should contain a summary of transactions relating to heritage assets disclosing, for the accounting period and each of the previous four accounting periods:

- a) the cost of acquisitions of heritage assets
- b) the value of heritage assets acquired by donation
- c) the carrying amount of heritage assets disposed of in the period and the proceeds received
- d) any impairment recognised in the period

This summary should show separately transactions in assets that are reported in the Statement of Financial Position and those that are not.

10.1.49 The disclosures required by the paragraphs above may be presented in aggregate for groups or classes of heritage assets provided this aggregation does not obscure significant information. Separate disclosures should be provided for those assets reported at cost and those reported at valuation. Amounts in respect of assets that are not reported in the Statement of Financial Position should not be aggregated with amounts for assets that are recognised at cost or valuation.

Accounting for PPP arrangements, including PFI contracts, under IFRS

10.1.50 This section of the Manual deals with the accounting treatment of PPP arrangements, including PFI contracts, that meet the definition of service concession arrangements in IFRIC 12 Service Concession Arrangements. To be within the scope of IFRIC 12, the service concession arrangement must contractually oblige the private sector operator to provide the services related to the infrastructure to the public on behalf of the grantor (the public sector) (IFRIC 12.3). Contracts that do not involve the transfer or creation of an infrastructure asset for the purpose of the contract fall outside the scope of IFRIC 12, as do arrangements that do not involve the delivery of services to the public. Examples of infrastructure for public services are: roads; bridges; tunnels; prisons; hospitals; airports; water distribution facilities; telecommunication networks; permanent installations for military etc. operations; and non-current assets used for administrative purposes in delivering services to the public.

10.1.51 The private sector operator will apply IFRIC 12 to those arrangements where:

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

- b) the grantor controls – through beneficial entitlement or otherwise – any significant residual interest in the infrastructure at the end of the term of the arrangement.

Where the infrastructure asset is used for its entire useful life, and there is little or no residual interest, the arrangement would fall within the scope of IFRIC 12 where the grantor controls or regulates the services as described in the first condition (see also IFRIC 12.6). Significant residual interest will exist where the grantor is contractually required to purchase the infrastructure asset at the end of the term of the arrangement.

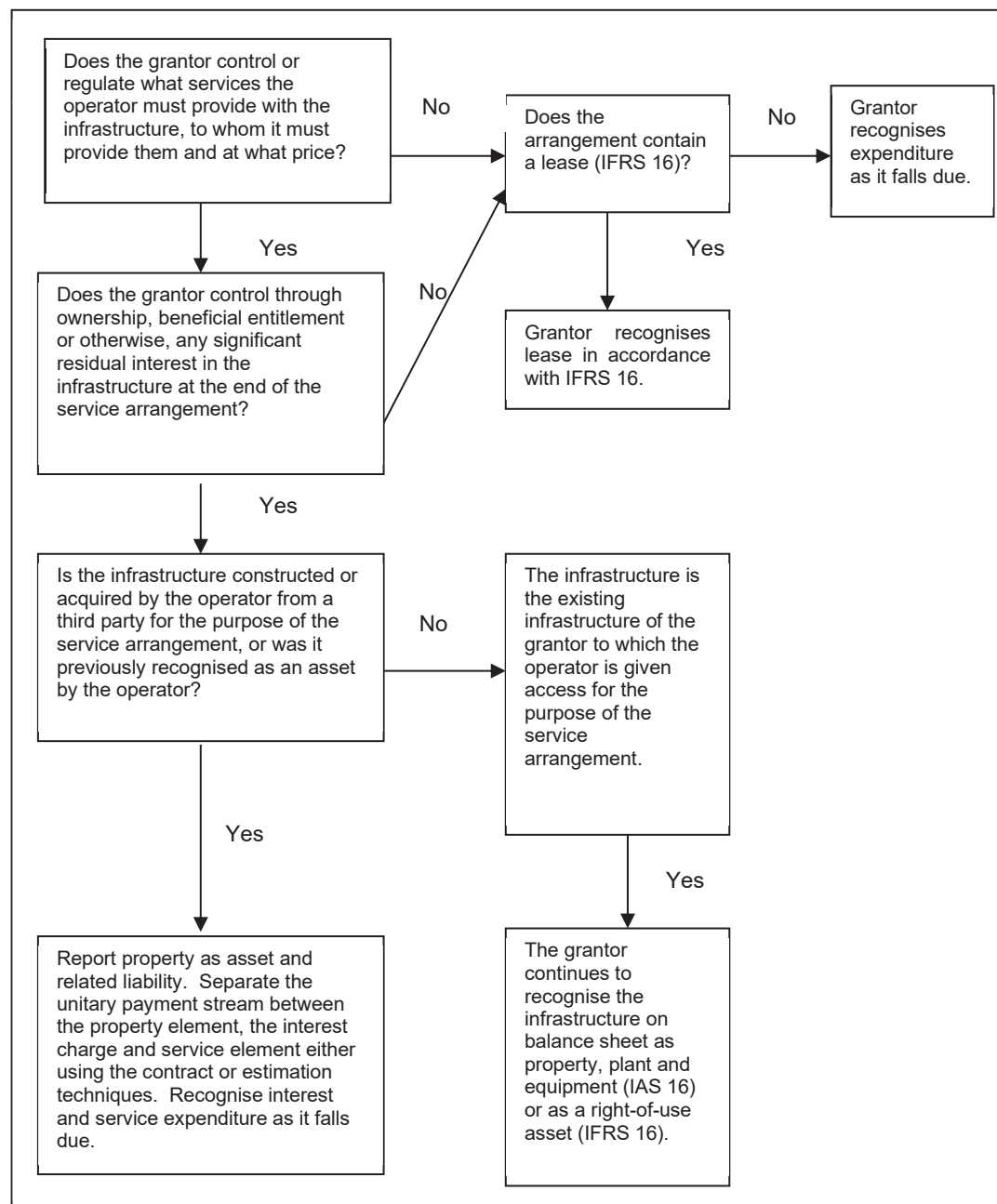
10.1.52 IFRIC 12 (Application Guidance paragraph 3) notes that, in determining the applicability of the first condition, non-substantive features (such as price capping that would apply only in remote circumstances) should be ignored and the substance of the arrangement considered.

10.1.53 IFRIC 12, including the Appendices, Information Notes, Illustrative Examples and Basis for Conclusions, provides guidance on how to apply IFRS to service concession arrangements. IFRIC 12 does not create exceptions from other IFRS for transactions that are within service concession arrangements, other than as specifically stated in IFRIC 12. Issues not addressed explicitly in this section of the Manual should be resolved by reference to other IFRS. IFRIC 12 applies to:

- a) arrangements where the infrastructure is used for its entire useful life;
- b) infrastructure that the operator constructs or acquires from a third party; and
- c) infrastructure that the grantor provides to the operator for the purpose of the concession.

10.1.54 IFRIC 12 does not specify the accounting for infrastructure that was held and recognised as an asset by the operator prior to entering the arrangement (IFRIC 12.6-8). This is because the operator would de-recognise the asset under IAS 16. Paragraph **10.1.51** interprets IFRIC 12 for the public sector by including an asset previously owned by the operator within the criteria for recognising the arrangement as a service concession. The flowchart overleaf will assist in determining the appropriate accounting treatment of PPP arrangements, including PFI contracts by public sector grantors.

Flowchart of accounting for PPP arrangements



Initial recognition and measurement of assets and liabilities in new arrangements and contracts

10.1.55 Where there is infrastructure, whether previously owned by the contractor or the grantor, or constructed or acquired from a third party for the purpose of the service arrangement, and the grantor:

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

- b) Controls through beneficial entitlement or otherwise, any significant residual interest in the infrastructure at the end of the term of the arrangement (or there is no residual interest).

Then the PPP arrangement or PFI contract is a service concession within the meaning of IFRIC 12 from the grantor's viewpoint.

10.1.56 The grantor should recognise the infrastructure as a non-current asset and value it in the same way as other non-current assets of that generic type. The asset will be recognised when:

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

The grantor should consider the asset recognition criteria, together with the specific terms and conditions of the binding arrangement, when determining whether to recognise the service concession asset during the period in which the asset is constructed or developed. If the asset recognition criteria have been met a work-in-progress service concession asset and associated liability should be recognised. If not and the grantor makes contributions to the operator in advance of the asset coming into use, the grantor should account for those payments as prepayments.

Measurement

10.1.57 The asset will be measured in one of two ways:

- a) where the contract is separable between the service element, the interest charge and the infrastructure asset (see also paragraph **10.1.58**), the asset will be initially measured following the principles contained within IFRS 16 (with the discount rate specified in paragraph **10.1.61**), with the service element and the interest charge recognised as incurred over the term of the concession arrangement (the subsequent measurement should be subject to the guidance of IAS 16); or
- b) where there is a unitary payment stream that includes infrastructure and service elements that cannot be separated, the various elements will be separated using estimation techniques as set out in paragraph **10.1.59**.

10.1.58 The grantor should separate out the service, interest and infrastructure elements. A contract may be separable in a variety of circumstances, including but not limited to the following:

- a) the contract identifies an element of a payment stream that varies according to the availability of the property itself and another element that varies according to usage or performance of certain services;
- b) different parts of the contract run for different periods or can be terminated separately. For example, an individual service element can be terminated without affecting the continuation of the rest of the contract; or
- c) different parts of the contract can be renegotiated separately. For example, a service element is market tested and some or all of the cost increases or reductions are passed on to the grantor in such a way that the part of the payment by the grantor that relates specifically to that service can be identified.

- 10.1.59** In situations where it is not possible to separate the contract due to commercial reality, the service element of the payments must be estimated, which could be achieved by obtaining information from the operator or by using the fair value approach. The fair value of the asset determines the amount to be recorded as an asset with an offsetting liability. The total unitary payment is then divided into three: the service charge element, repayment of the capital element of the contract obligation and the interest expense on it (using the interest rate implicit in the contract).
- 10.1.60** For both existing and new contracts, where it is not practicable to determine the interest rate implicit in the contract, the grantor shall use its cost of capital rate (including inflation). It is expected that this situation would be rare. The rate should not be changed unless the infrastructure element or the whole of the contract is renegotiated.
- 10.1.61** Entities covered by the requirements of this manual should use the Treasury discount rate for investment appraisal purposes as their cost of capital rate. This rate is stated in real terms and must be adjusted for the inflation rate to arrive at the nominal rate. The nominal rate can be calculated using inflation rates provided by the Office for National Statistics: <https://www.gov.uk/government/statistics/weekly-economic-indicators>
- 10.1.62** Under either approach, the grantor will recognise a liability for the capital value of the contract. That liability does not include the interest charge and service elements, which are expensed annually to the Statement of Comprehensive Net Expenditure.
- 10.1.63** Reporting entities should have recorded indexation linked payments in PPP liabilities in accordance with IFRS 16 from 2023/24.
- 10.1.64** An IFRS 16 approach means the liability must be remeasured if there is a change in future lease payments resulting from a change in an index/rate used to determine those payments. The liability does not include estimated future indexation linked increases. There are two elements required:

Initial remeasurement- this should have already been performed per the guidance in the 2023-24 FReM.

Subsequent measurement

The timing of any subsequent remeasurement of the PPP liability for indexation linked changes will be whenever there is a change in the cash flows i.e., when the adjustment to lease payments takes effect. This will be dependent on the terms of individual PPP arrangements. The revised lease payments for the remainder of the lease term will be revised based on the revised contractual payments. The double entry for the liability remeasurement should be Debit Finance Cost, Credit PPP Liability. This is mandatory in order to provide consistency across central government.

- 10.1.65** Further guidance on the treatment of indexation-linked payments will be made available within a separate guidance document on the application guidance page.³¹

³¹ <https://www.gov.uk/government/publications/government-financial-reporting-manual-application-guidance>

- 10.1.66** Reporting entities should adopt an appropriate asset revaluation approach as set out earlier in this chapter. Liabilities will be measured using the appropriate discount rate, taking account of the reduction arising from the capital payments included in the unitary payment stream.
- 10.1.67** Revenue received under any revenue sharing provision in the service concession arrangement should be recognised when all the conditions as laid down in IFRS 15 have been satisfied.
- 10.1.68** The grantor should recognise any guarantees to the operator that it will meet any shortfalls in revenue or repay the debt if the operator defaults in line with the requirements of IAS 32 and IFRS 9.
- 10.1.69** The grantor should derecognise a non-current asset provided to the operator (and not used in the arrangement) and recognise any consideration received at fair value. If the consideration received is in the form of a reduction in future payments, this should be recognised as an asset representing a reduction in the future liability (normally as a prepayment).

10.2 Right of use assets

- 10.2.1** Right-of-use assets should be subsequently measured following the principles of IFRS 16 and IAS 16 as interpreted in this Manual. In most cases, the cost model in IFRS 16 is an appropriate proxy for current value in existing use or fair value. This is because right-of-use assets generally have shorter useful lives and values than their respective underlying assets (see guidance in paragraph 10.1.14 regarding using cost as a proxy for owned assets with shorter economic lives or low values). Additionally, in many cases leases will have terms that require lease payments to be updated for market conditions, which will be captured in the IFRS 16 cost measurement requirements.
- 10.2.2** However, for some right-of-use assets, the cost model in IFRS 16 will not be an appropriate proxy for current value in existing use or fair value. This is likely to be the case when both of the following conditions are met:
- a) A longer-term lease has no terms that require lease payments to be updated for market conditions (such as rent reviews), or if there is a significant period of time between those updates
 - b) The current value in existing use or fair value of the underlying asset is likely to fluctuate significantly due to changes in market prices. This is more likely to be the case with property assets
- 10.2.3** Additionally, cost will not be an appropriate proxy for right-of-use assets under peppercorn leases.
- 10.2.4** To measure the current value in existing use of a right-of-use asset, a valuer should calculate the full replacement cost of the right-of-use asset. This should be done by identifying the current market rental value that could be achieved for existing use of the right-of-use asset and capitalising it for the full remaining lease term from the valuation date. This valuation should reflect the terms and conditions of the lease giving rise to the right-of-use asset and should reflect an assumption that the entity requires the use of the entire right-of-use asset. The Royal Institution of Chartered Surveyors (RICS) has published guidance for valuers consistent with the above [here](#).

- 10.2.5** If the cost model in IFRS 16 is used as a proxy for current value in existing use or fair value then this fact should be disclosed, including the classes of right-of-use assets within which it has been used (where appropriate) and the reasons why.
- 10.2.6** Finally, entities should bear materiality in mind when applying this guidance, just as in other areas of financial reporting. Part of the reason that, in most cases, the cost model in IFRS 16 is an appropriate proxy for current value is that there is not a material difference between the valuation produced by the cost model or the valuation produced by the revaluation model.

10.3 Climate Change Levy (CCL)

- 10.3.1** The levy is the successor scheme to the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme allowances. There is no accounting standard that directly applies to the levy charge. As such, accounting for the levy defaults to IAS 1, Presentation of Financial Statements and the overarching IASB Conceptual Framework for Financial Reporting.
- 10.3.2** Bodies subject to payment of the levy will see an outflow of assets when cash is paid over under the terms of the levy. The levy can therefore be treated as an expense under the definition set out in the Conceptual Framework.

10.4 Impairments

- 10.4.1** Where the carrying amount of an asset exceeds its recoverable amount departments will recognise an impairment loss. Departments need to establish whether any of the impairment loss is as a result of:
- a) Consumption of economic benefit or reduction in service potential; or
 - b) A change in market price.
- 10.4.2** A fall in value relating to a consumption of economic benefit or reduction in service potential is always taken to the SoCNE. A fall in value relating to changes in market price should first be offset against a revaluation reserve for the asset in question if there is one, and once that element of the reserve is exhausted the fall in value should be taken to the SoCNE.
- 10.4.3** Examples of impairments resulting from a consumption of economic benefit or service potential include losses as a result of loss or damage, abandonment of projects, gold-plating and use of the asset for a lower specification purpose.
- 10.4.4** In budgetary terms, certain impairments will score as DEL and others as AME, and departments will enter the type of impairment onto OSCAR using the relevant account code. [The Consolidated Budgeting Guidance](#) (CBG) contains more detail. The budgeting treatment does not influence the accounting treatment, but entities might wish to consider whether information about the type and cause of impairment could usefully be included in the relevant notes to the accounts.
- 10.4.5** Where an asset has been impaired due to a clear consumption of economic benefit or reduction in service potential, any balance on any revaluation reserve (up to the level of the impairment) to which the impairment would have been charged under IAS 36 should be transferred to the general fund (or equivalent component of equity). This ensures that the outcome as reflected in the reserves figure on the

Statement of Financial Position is consistent with the requirements of IAS 36 had the FReM adaptation of IAS 36 not been applied.

- 10.4.6** The capitalised development expenditure that is directly linked to a tangible non-current asset should be impaired only where the tangible non-current asset becomes impaired. Where the intangible asset relates to a group of tangible non-current assets, any impairment will be charged only where the entire group is impaired and will be proportionate to the impairment of the group of tangible assets. For example, development expenditure related to a fleet of aircraft will be impaired only where the entire fleet is impaired and not if less than the whole fleet is impaired.

10.5 Inventories

- 10.5.1** In addition to the types of inventories identified in IAS 2, central government has categories of inventories for which IAS 2 may not adequately cover the accounting treatment.

Stockpile goods

- 10.5.2** Stockpile goods may be defined as strategic materials held for use in national defence and national emergencies. They can be further categorised as:
- a) non-current assets, which should be accounted for in the same way as other assets of the same type; or
 - b) other non-deteriorable and deteriorable inventories (the latter possibly being turned over from time to time to avoid obsolescence). Minimum capability levels of inventories should be accounted for as non-current assets. Other inventories should be accounted for under IAS 2.

Confiscated, seized and forfeited property

- 10.5.3** The proceeds of realisations of confiscated, seized and forfeited property go to the Consolidated Fund and are usually not for the benefit of the collecting entity concerned. Because of this, it would be inappropriate to recognise confiscated, seized and forfeited property in financial statements (other than Trust Statements), unless exceptionally agreed with the relevant authority. Entities should state by way of memorandum note the proceeds derived from these realisations.
- 10.5.4** The proceeds of items sold to satisfy outstanding tax liabilities, net of sale expenses, should be treated in the same way as other taxation receipts.

Chapter 11 - Further guidance on accounting for income and expenditure

11.1 Income

Definitions

11.1.1 The following paragraphs provide definitions of the various types of income that departments might expect to receive.

11.1.2 Funding from the following sources should not, however, be accounted for as income but as financing through the General Fund (or equivalent component of equity):

- Supply
- grant in aid received by arm's length bodies
- grants from the Wales Office to the Welsh Government, from the Scottish Office to the Scottish Government and from the Northern Ireland Office to the Northern Ireland Assembly
- amounts from the National Insurance Fund
- amounts from the Consolidated Fund in respect of standing services
- advances from the Contingencies Fund
- amounts appropriated from tax revenue in the HMRC Trust Statement for the purpose of paying tax credits
- amounts appropriated from National Insurance contributions in the HMRC Trust Statement for the purpose of financing the NHS

11.1.3 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 Government.

11.1.4 ALBs should refer to the following definitions as appropriate to their circumstances. There may be situations where, in consultation with their sponsoring bodies, ALBs 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. ALBs should refer to paragraph **11.1.12** for guidance on accounting for grants and grants-in-aid.

Operating and non-operating income

11.1.5 Operating income is any income generated by an entity in pursuit of its activities or as part of managing its affairs (examples include rents, interest and dividends receivable). Proceeds arising from the sale of investments and non-current assets are accounted for as non-operating income.

Retainable and non-retainable income

- 11.1.6** All income from contracts with customers should be recognised in the Statement of Comprehensive Net Expenditure in accordance with IFRS 15. Entities should refer to relevant Standards for other sources of income. Only income that can be retained and set against resource or capital budgets should be recorded in the Statement of Parliamentary Supply. Departments should refer to Consolidated Budgeting Guidance to determine whether income may be retained and contact the relevant authority where approval to retain is required.

EU income

- 11.1.7** EU income from whatever source, other than receipts for which the entity is acting as an agent for the European Union in making payments to third parties should be treated as income and recorded on a gross basis in the Statement of Comprehensive Net Expenditure.
- 11.1.8** In the case of EU twinning project receipts or similar schemes where the entity is acting as an agent of the EU, amounts to be transferred to other member states as EU funding 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.
- 11.1.9** 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.

Scotland

- 11.1.10** 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.
- 11.1.11** 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 2009 (SI 2009/537) 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

- 11.1.12** Other than charitable ALBs, who should follow the requirements of the Charities SORP, ALBs should regard grants and grants-in-aid 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 is in accordance with IAS 20 as interpreted by this Manual. Any proposal for alternative accounting treatment should be approved by the department responsible for the ALB and the relevant authority.

11.2 Accounting for Supply

11.2.1 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 (or equivalent component of equity) 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. This credit balance will be cleared in the following year when 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. This should occur only rarely, but might arise where, for example other financing – e.g. National Insurance Fund payments – are used to meet expenditure that should have been settled by Supply funding. This debtor will be cleared in the following year when the cash is issued from the Consolidated Fund.
- e) 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, not up to the value of net cash requirement outturn. 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 for all cash owed, which will be cleared as funds are issued.
- f) There may be instances where an entity's outturn net cash requirement is in excess of the estimate and the cash drawn down is in excess of the net cash requirement outturn (e.g. NCR estimate = £100k, NCR outturn = £110k, Cash drawdown from the Consolidated Fund = £120k). Such scenarios are rare. Should this scenario occur, entities should not recognise any deemed supply. Previous treatment has classified the cash drawn down in excess of the Estimate as a 'balance to surrender to the Consolidated Fund' (using the example above, £20k [£120k - £100k] would be included within trade payables and other current liabilities as balance to surrender to the Consolidated Fund as well as in the SoCTE as Net parliamentary funding –

balance to surrender). Where this scenario occurs, entities must engage with their HM Treasury spending team to confirm the correct treatment in departmental accounts and in settling the balances with the Consolidated Fund after the year end.

- 11.2.2** Departments are required to complete a return to the Exchequer Funds and Accounts (EFA) team in the Treasury for the purposes of confirming the amount of Supply issued and deemed to have been issued and the surrender of receipts to the Consolidated Fund. The return must be agreed with EFA and the agreed return together with evidence of EFA's agreement should be provided to the National Audit Office prior to the annual report and accounts being signed and laid before Parliament.

11.3 Consolidated Fund revenue

- 11.3.1** This section deals with revenue (and some associated expenditure) collected by entities on behalf of the Consolidated Fund 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.

Taxes and duties

- 11.3.2** Taxes and duties are economic benefits compulsorily payable to public sector entities, in accordance with laws and regulations established to provide revenue to the government, excluding fines or other penalties imposed for breaches of laws or regulations.
- 11.3.3** In preparing their financial statements, entities will not recognise or measure the "tax gap". The "tax gap" is defined as the difference between the hypothetical amounts of revenues due, based on data on economic activity, and revenues receivable. Revenues receivable include both the tax yield from compliant taxpayers and estimates of amounts expected to be paid from non-compliant, but known, taxpayers. Where taxes and duties are material, a statement should be included in the accounting policies note that the "tax gap" is not recognised in the financial statements.
- 11.3.4** Where taxes and duties are recognised on an accrual basis, they will be measured at the fair value of the consideration received or receivable, net of repayments. Revenue is recognised when a taxable event has occurred, the revenue can be measured reliably, and it is probable that the economic benefits from the taxable event will flow to the collecting entity. All these elements are required to be satisfied.
- 11.3.5** Tax revenues are deemed to accrue equally over the period for which they are due. No revenue is recognised if there are significant uncertainties regarding recovery of the taxes due. The term "probable" means that the flow of revenue should be more likely than not to occur. Revenue should be accrued net of amounts not expected to be collected, which might be determined by reference to past trends in write-offs and remissions, the emerging position in-year, historical debt collection performance or by other appropriate means.
- 11.3.6** Where, exceptionally and with the consent of HM Treasury, taxes and duties are recognised on a cash basis, they will be recognised in the accounting period in which the tax is received by the entity and are measured at the cash amount received.

- 11.3.7** 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.

Fines and penalties

- 11.3.8** Fines and penalties are economic benefits payable to government for breaches of laws or regulations where there is a statutory obligation to pay.
- 11.3.9** 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 if the option of the non-financial penalty is taken up.
- 11.3.10** 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.

Trust Statements

- 11.3.11** 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.
- 11.3.12** The intention of the underlying legislation³² 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.
- 11.3.13** The Treasury (or, where appropriate, sponsor department) will issue an accounts direction to each entity producing a Trust Statement. The format of the Trust Statement will be defined in the accounts direction. It will usually follow the principles set out in [Chapter 5](#) 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 of those entities collecting revenue on behalf of the Consolidated Fund and based on section 7 of the Government Resources and Accounts Act for other entities.
- 11.3.14** 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

³² As required by The Exchequer and Audit Departments Act 1921

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

11.3.15 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 allowance for uncollectible amounts measured in accordance with the principles of IFRS 9, as adapted and interpreted by [Chapter 8](#) of this Manual.

11.3.16 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).

11.3.17 Where by statute or approval from HM Treasury, an entity is permitted to retain revenue from taxation, fines and penalties, this revenue shall be treated as arising from a contract and accounted for under IFRS 15 (15a). Details on this adaptation are given in [Table 8.2](#).

Presentation

11.3.18 Where revenue from taxes, duties fines and penalties is material to the entity, it shall prepare a Trust Statement containing details of the material income, expenditure, assets, liabilities and cash flows detailed in a Statement of Revenue, Other Income and Expenditure, a Statement of Financial Position and a Statement of Cash Flows, together with supporting notes to those primary statements, to give a true and fair view of the statement of affairs relating to the collection and allocation of taxes, duties fines and penalties and any other revenues and related expenditure.

11.3.19 Where revenue from taxes, duties, fines and penalties is not material to the entity, it need not prepare the Trust Statement set out in the preceding paragraph but may do so if it provides a clearer interpretation of the state of affairs. Where the entity does not produce the statements in the preceding paragraph, it shall set out in a note to the accounts details of the amounts collected and surrendered or otherwise expended (but shall not include them in its statement of income and expenditure) and of the amounts receivable and payable at the end of the reporting period.

Disclosures

11.3.20 An entity shall disclose:

- a) in the notes to the Trust Statement, the main accounting policies, estimates and judgements used to assess tax income, expenditure, assets and liabilities, including any provision created in respect of tax, fines or penalties deemed uncollectible

- b) in the notes to the Trust Statement, a statement of those taxes reported on an accruals basis and those on a cash basis
- c) any additional supporting information which might aid the understanding of users of the accounts. This will include the following where material:
 - i. Details of fraud, evasion and error
 - ii. Accounting estimates of accrued tax revenue
 - iii. Credit risk disclosures relating to debt write-offs, remissions and overdue debt

Devolved Tax Accounts – Scotland

- 11.3.21** Scottish Ministers require Revenue Scotland, the tax authority responsible for the administration and collection of devolved taxes in Scotland, to produce an annual account of the Devolved Taxes. The Devolved Taxes flow into the Scottish Consolidated Fund and so the Devolved Taxes account will be laid in the Scottish Parliament and published separately from the annual accounts produced by Revenue Scotland, so that it can also be closely associated with the Scottish Consolidated Fund accounts.
- 11.3.22** The Devolved Taxes account will be produced in accordance with an accounts direction and with the Scottish Public Finance Manual and will:
- a) follow the accounting principles set out in section **11.3.14** and **11.3.15**
 - b) have the form and content specified in the accounts direction and the Scottish Public Finance Manual
 - c) provide equivalent disclosures, where relevant, to those set out in **11.3.20**

11.4 Expenditure

EU Expenditure

- 11.4.1** Expenditure in respect of grants or subsidy claims, whether European Agriculture Guidance and Guarantee Fund, European Regional Development Fund, Financial Instrument for Fisheries Guidance, etc., should be recognised in financial statements as closely as possible to the time of the underlying event or activity that gives rise to a liability. In practice, entities may find that claims received or authorised may form a suitable approximation for the liability, if applied consistently.
- 11.4.2** Where material, all expenditure in respect of grants or subsidy claims should be accounted for gross. Where an entity provides services to a candidate country under a twinning project, relevant income and expenditure should be accounted for as EU income (see paragraphs **11.1.7** to **11.1.9**) and related expenditure (paragraphs **11.4.1**).

Notional expenditure

- 11.4.3** To disclose the full cost of their activities, entities will sometimes include in their accounts notional costs as well as those actually incurred. For charitable ALBs, notional costs may be included in the Statement of Financial Activities after 'Total resources expended' followed by a suggested new total of 'Total resources expended including notional costs'. Any notional costs will, however, also need to be reversed out within the Statement of Financial Activities. A suitable place for an

additional heading dealing with the reversal is after the total 'Gains and losses on revaluation and disposals of investment assets' and before the total 'Net movement in funds'. Other ALBs might reverse the entry below the result for the year or in the General Reserve.

- 11.4.4 Notional costs should not be recorded for cost of capital, though actual costs will be charged in circumstances where the Treasury directs that it is appropriate. Where entities use cost of capital in management accounting or for setting fees and charges in accordance with the fees and charges guidance, these costs must be excluded from the accounts of the entity.
- 11.4.5 Notional insurance premiums will not be charged in the Statement of Comprehensive Net Expenditure. Instead, expenditure in connection with uninsured risks (for example, accident repairs or asset write-downs) will be charged as incurred. Entities expected to recover full costs in accordance with fees and charges policy may show in a note to the accounts the effect of charging notional premiums.

11.5 Apprenticeship Levy

- 11.5.1 The government introduced the Apprenticeship Levy from 1 April 2017. Payment of the levy is considered a form of taxation for ONS purposes, and entities should therefore account for the payment of the levy as a tax expense as part of staff costs.
- 11.5.2 Income received in an entity's Digital Apprenticeship Service (DAS) account is considered to be a government grant for accounting purposes as resources (the training services) are transferred to the entity in return for compliance with certain conditions (providing approved training to its employees). Such assistance should be recognised as grant income at the same point in time that an associated expense for training services is recognised, as per IAS 20.

Part E: Additional guidance

Chapter 12 – Further guidance on pensions accounting

12.1 Introduction

12.1.1 This first section of this chapter deals with pensions accounting by employers, whether they are reporting entities or preparing the financial statements of reportable activities covered by this Manual. The second section deals with pensions accounting by the following public sector pension schemes:

- Principal Civil Service Pension Scheme (PCSPS)
- Alpha Pension Scheme
- Armed Forces Pension Scheme (AFPS)
- NHS Superannuation Scheme
- Teachers' Superannuation Scheme
- United Kingdom Atomic Energy Authority Superannuation Schemes
- Judicial Pension Scheme
- Department for International Development – Overseas Superannuation Scheme
- Research Councils' Pension Scheme
- Northern Ireland DoF Superannuation and Other Allowances
- Northern Ireland HSC Pension Scheme
- Police Service Northern Ireland Pension Scheme
- Northern Ireland Teachers' Superannuation Scheme
- Scottish NHS Superannuation Scheme
- Scottish Teachers' Superannuation Scheme
- Royal Mail Statutory Pension Scheme

12.1.2 This chapter also considers the accounting treatment of termination benefits (also known as early departure costs or compensation payments) by the above public sector pension schemes for which there is no applicable financial reporting standard.

12.2 Accounting for termination benefits

12.2.1 The accounting treatment of termination benefits (also known as early departure costs or compensation payments) by employers is dealt with in IAS 19 as adapted and interpreted by this Manual (see [Chapter 6](#)).

12.2.2 For convenience, termination benefits are paid to the individuals concerned using the arrangements for paying pensions, with the amounts being recharged to employers. Ideally, separate statements for these transactions should be prepared, but, for historical reasons, it is appropriate to prepare statements showing both

pension transactions and those relating to termination benefits. The following paragraphs describe the treatment of termination benefits in the accounts of the pension schemes, notwithstanding that IAS 26 does not address this issue. As the arrangements for paying termination benefits and their recovery from employers may differ from scheme to scheme, the following guidance is of a general nature and may need to be interpreted to reflect individual circumstances.

- 12.2.3** In some cases, the scheme acts purely as an agent, with individuals having recourse to their former employers in the case of default; in others, the scheme acts as principal. It is important for schemes to establish their status by reference to their governing statutes and regulations. This should be consistent with the accounting treatment of termination benefits by employers in accordance with IAS 19 as interpreted by this Manual.

Schemes acting as an agent

- 12.2.4** The Statement of Financial Position should recognise and measure only a current asset or liability being timing differences between amounts expected to be paid to former employees and their recovery from employers. It will not recognise either the total liability to former employees or the total amount recoverable from employers.
- 12.2.5** The Statement of Comprehensive Net Expenditure will show only any costs falling to the scheme such as differences between any amounts pre-funded and the offsetting liability.

Schemes acting as a principal

- 12.2.6** The Statement of Financial Position should recognise and measure both:
- a) a provision representing the total future liability to former employees. Depending on the terms of the regulations relating to compensation payments, this provision may be incorporated into that for pensions but where it is not, the provision should be discounted at the general provision discount rate (not the pension discount rate)
 - b) a sum representing the total amounts expected to be paid from employers where those amounts are recharged to employers on a regular basis.

Pre-funding the liability

- 12.2.7** Some schemes permit employers to pre-fund their liabilities either by means of a lump sum or paying instalments over a short number of years.

Schemes which act as an agent

- 12.2.8** The instalments or lump sums should be shown separately in the Statement of Financial Position as a long-term liability which is reduced as the amounts are paid to the employees. Where the instalments or lump sums received offset a greater value of liabilities, there will be a cost to the scheme that should be recognised in the Statement of Comprehensive Net Expenditure. Ideally, the cost should be allocated to individual years on an actuarially determined basis, but, in most cases, it will be sufficient to take the actual loss in the year – that is, the difference between the amounts pre-funded in respect of a given year and the payments made in respect of the respective individuals during the year.
- 12.2.9** Conversely, schemes will benefit if payments to individuals are lower than amounts pre-funded by employers and will record this as a gain (on an actual basis) if the

amounts are not refundable to employers or capable of being offset against other individuals.

Schemes which act as a principal

- 12.2.10** Amounts receivable from employers by way of a capitalised payment to discharge their liability are to be regarded as special pension scheme contributions in the Statement of Comprehensive Net Expenditure.
- 12.2.11** Amounts receivable from employers on an on-going basis are to be regarded as “other income” in the Statement of Comprehensive Net Expenditure.

12.3 Pensions accounting by the public sector pension schemes

- 12.3.1** IAS 26 applies, as adapted and interpreted, to the financial statements prepared by the unfunded pension schemes listed in paragraph **12.1.1**.

Disclosures

- 12.3.2** Paragraph 18 of IAS 26 allows the present value of the expected payments by a retirement benefit plan to be calculated and reported using either current salary levels or projected salary levels. The pension schemes listed in paragraph **12.1.1** are to calculate and report the present value of the expected payments using projected salary levels; that is, the option of using current salary levels is not available.
- 12.3.3** Paragraph 17 of IAS 26 allows information concerning the actuarially determined present value of promised retirement benefits to be disclosed (a) as part of the statement of net assets, (b) by way of note, or (c) in a separate actuarial report which is attached to the accounts. The pension schemes listed in paragraph **12.1.1** are to disclose the actuarially determined present value of promised retirement benefits within the statement of financial position; that is, options (b) and (c) are not available.

Content of the accountability report

- 12.3.4** The accountability report of pension schemes shall include the following:
- a) Report of the Scheme’s Managers
 - b) Report of the Scheme’s Actuary
 - c) Statement of the Accounting Officer’s responsibilities
 - d) Governance Statement
 - e) Report of the Auditor
 - f) Statement of Parliamentary Supply

Content of the financial statements

- 12.3.5** Although not addressed specifically in IAS 26, the financial statements prepared by pension schemes shall include (and see also the proforma *Magenta*):
- a) [Combined³³]Statement of Comprehensive Net Expenditure

³³ These statements are described as “Combined” if the statement reflects transactions relating to both pensions and early departure costs.

- b) [Combined] Statement of Financial Position
- c) [Combined] Statement of Changes in Taxpayers' Equity
- d) [Combined] Statement of Cash Flows
- e) Supporting notes

Additional voluntary contributions (AVCs)

12.3.6 AVCs are amounts deducted from employees' salaries and paid over directly by employers to approved AVC providers. They do not include employees' normal contributions in respect of the purchase of added years.

12.3.7 AVC transactions should be included in the financial statements of the pension schemes by way of note showing:

- a) the value of the AVC investments at the beginning of the year
- b) amounts paid to the AVC providers during the year
- c) the investments purchased by the AVC providers
- d) the value of sales of investments to provide pension benefits
- e) the changes in the market value of investments
- f) the value of the AVC investments at the end of the year
- g) the existence (if any) of any guarantee given by the scheme

12.3.8 If the AVC arrangements include life assurance cover, the note should also show the contributions received to provide life cover, and the benefits paid on death.

Chapter 13 - Whole of Government Accounts

13.1 Introduction

- 13.1.1** The Treasury prepares Whole of Government Accounts (WGA) for the whole of the UK public sector (central government, local government and public corporations) under [section 9](#) of the Government Resources and Accounts Act 2000. WGA is prepared under generally accepted accounting practice as defined in [chapter 2](#) of this Manual.
- 13.1.2** This chapter considers the specific accounting and disclosure requirements adopted in the consolidated WGA as compared with the requirements for the financial statements of the reporting entities and reportable activities covered by the rest of this Manual.

13.2 Adaptations and Interpretations applied to WGA

- 13.2.1** This section summarises the applicability of accounting standards to WGA. Changes to adaptations and interpretations of standards from those detailed in [Chapter 8](#) that apply to WGA are explained in the paragraphs below.

IFRS 8 Operating segments

- 13.2.2** IFRS 8 is interpreted for WGA in the following ways:
- a) the requirement to report separately information about each operating segment will be met by following the sub-sector classification (central government, local government and public corporations) used by the Office for National Statistics in the National Accounts prepared as per international guidance. Parts of entities classified in the National Accounts to a different sector from the classification of the main part of the entity should be classified with the main part of the entity
 - b) the requirement to report information about profit and loss for each reportable segment will be met by reporting taxation revenues, other revenue, expenditure on public services, net expenditure on public services, financing costs of long-term liabilities, net expenditure/(revenue) for the year within the reportable segments identified in a) above
 - c) the requirement to report information about assets and liabilities for each reportable segment will be met by reporting total non-current assets, total current assets, total current liabilities, long-term borrowings, long-term provisions (excluding pensions provisions), other non-current liabilities, pensions, provisions and the total net assets/(liabilities) at the statement of financial position date within the reportable segments identified in a) above
 - d) the information defined in b) and c) above shall be reported, for each reportable segment, after the elimination of all transaction streams and balances internal to that segment. Consolidation adjustments for transaction streams and balances between segments shall be removed from each column to show the net contribution by sector

- e) no information needs to be given about products or services, geographical areas or major customers

IFRS 10 Consolidated Financial Statements

13.2.3 IFRS 10 is adapted for WGA in the following ways:

- a) these accounts are drawn up for the purposes of Government and Parliament as a whole and not as a requirement of any individual entity. No one body appears to have the ability to control all of the bodies within the consolidation, and as a consequence, for the purposes of WGA, no parent company will be disclosed in the statements and notes, only the position of the consolidated bodies
- b) the requirement to include all investees (subsidiaries) of the investor (parent) is adapted in order that WGA shall conform to the statutory requirement in the Government Resources and Accounts Act 2000 that WGA comprise a consolidation of those bodies that appear to HM Treasury to exercise functions of a public nature or are entirely or substantially funded from public money. This will be based on the national accounts classification of bodies to the public sector, as independently determined by the Office of National Statistics at the reporting date. This does not affect the right of the Comptroller and Auditor General to form a different opinion about the classification of any body, and therefore their inclusion within WGA
- c) the requirement to eliminate in full income tax, National Insurance Contributions and Value Added Tax balances and transactions between consolidated entities and Her Majesty's Revenue and Customs, and non-domestic rates payable by consolidated entities to local authorities, is adapted to exclude the elimination of input Value Added Tax on goods and services acquired by consolidating entities for either revenue or capital purposes

IAS 10 Events after the Reporting Period

13.2.4 The interpretation of IAS 10 required for annual accounts is not required for WGA, except that, the requirement that the financial statements be adjusted for events that provide evidence of conditions that existed at the reporting period will not apply. These events will be disclosed in line with non-adjusting events.

IAS 16 Property, plant and equipment

13.2.5 IAS 16 is adapted and interpreted for WGA in the same way that it is adapted for the financial statements of reporting entities covered by this Manual, other than in regards to highways infrastructure assets held by local authorities which are recognised at historical cost and the detailed disclosure requirements in IAS 16 paragraphs 74(a) and 77 and FReM paragraph **10.1.15** which shall not apply to WGA.

IAS 19 Employee benefits

13.2.6 In accounting for public service pension liabilities, WGA follows the requirements of IAS 19. IAS 19 is interpreted and adapted for WGA in the following ways:

- a) WGA shall recognise the liabilities of funded and unfunded pension schemes for which the public sector is responsible, whether originally recognised in employer or pension scheme accounts

- b) the requirements of IAS 19 shall be interpreted to mean that the period between formal valuations shall be that required by the governance arrangements for the relevant schemes
- c) schemes and employers recognising pension liabilities shall apply the actuarial assumptions, including discount rates most suited to the scheme or, where specific requirements apply, the required assumptions. The financial statements shall disclose the range of assumptions included in WGA but the requirement to include a sensitivity analysis for each significant actuarial assumption as of the end of the reporting period is not required

IAS 24 Related party disclosures

13.2.7 IAS 24 is adapted for WGA in the following ways:

- a) related parties are deemed to comprise any public sector entity that is not consolidated into WGA
- b) WGA shall provide a note of transactions with those related parties

IFRS 9 Financial instruments

13.2.8 IFRS 9 is interpreted for WGA in the same way that is interpreted for the financial statements of reporting entities covered by this Manual, with the exception that all public sector financial instruments shall be consolidated into WGA and shall not be included in a separate Trust Statement.

13.3 Other reporting requirements

Revenue from taxes and duties

13.3.1 WGA shall consolidate the financial statements of the revenues from taxes and duties and shall not include them in a separate Trust Statement as defined in Chapter 8. It shall be prepared in accordance with the requirements of this Manual, with the exception that revenue collected as an agent of the European Union shall be excluded. WGA shall also consolidate Council Tax and Non-Domestic Rate revenues recognised in local authority collection funds.

13.3.2 Levies reported as income in the financial statements of consolidated entities but which are classified as taxes by the Office for National Statistics shall be reported as taxes in WGA. Such levies include, but are not restricted to, the BBC licence fee, sugar levies, fines collected by financial regulators and levies collected by non-departmental public bodies that exist to promote British produce.

13.3.3 Revenues collected on behalf of the European Union that should be excluded from the consolidation comprise Traditional Own Resources (customs duties including those on agricultural products collected by Her Majesty's Revenue and Customs, and sugar levies collected by the Department for Environment, Food and Rural Affairs) and the Third Resource (VAT, which is the product of the application of a uniform rate to a harmonised expenditure base). Monies retained as reimbursement of collection costs in respect of Traditional Own Resources shall be accounted for as other operating income.

Monetary gold and IMF Special Drawing Rights

13.3.4 The UK Government's holdings of gold are valued at the sterling equivalent of the London Bullion Market Association dollar denominated spot price as at the

Statement of Financial Position date. Revaluation gains and losses on gold assets are recognised within fair value changes of gold in the Statement of Comprehensive Income and Expenditure.

- 13.3.5** Special Drawing Rights (SDR) are an international reserve asset created by the International Monetary Fund (IMF), representing member governments' rights within the international monetary system. The UK Government's SDR shall be recognised on the WGA statement of financial position in sterling, converted at the SDR exchange rate, published by the IMF, as at the statement of financial position date. Any income receivable in SDR shall be recognised in interest income at the exchange rate prevailing on the date of receipt.

Companies Act 2006

- 13.3.6** The requirements of Part 15 (Accounts and reports) of the Companies Act 2006 as applied in Part B of this Manual shall not apply to Whole of Government Accounts. Additional reporting requirements set out in section [6.1](#)– [6.3](#) and paragraphs [6.4.1](#)– [6.4.4](#) of the FReM shall not apply to the Whole of Government Accounts.

Commentary accompanying Whole of Government Accounts

- 13.3.7** The Treasury shall prepare commentary to accompany WGA that includes the following information:

- a) a statement that detailed information about the underlying activities and governance arrangements of the public sector can be obtained from the individual accounts consolidated into WGA
- b) a clear and concise discussion of WGA, which should include:
 - an overview section that provides a summary of significant events affecting the financial statements
 - an analysis of significant risks and uncertainties inherent in the government's financial position and a reference to the strategies and policies adopted to manage those risks and uncertainties (which might be a cross-reference to other published documents)
 - an analysis of the reasons for underlying variations between financial performance and the financial position between reporting periods (with the exception of the first year of publication, when the analysis shall be restricted only to the variations in financial position)
 - information about any significant trends related to financial assets and liabilities, revenues and expenditure, and cash flows associated with long-term provisions

The Statement of Accounting Officer's responsibilities

- 13.3.8** The Treasury's WGA Accounting Officer shall prepare a Statement of Accounting Officer's responsibilities in respect of WGA, in a form to be agreed by HM Treasury, including a statement of overall responsibility for producing WGA, which must give a true and fair view of the state of affairs of the Government at the Statement of Financial Position date and statement of cash flows for the financial year.

The Governance Statement

- 13.3.9** The Treasury's WGA Accounting Officer shall prepare a Governance Statement in relation to the preparation of WGA in a form to be agreed by HM Treasury. The Governance Statement shall include information about the arrangements in place to assure the quality of the financial and other information included in WGA, including the role of Internal Audit.
- 13.3.10** The Governance Statement shall include information about the relationship between the Treasury's WGA Accounting Officer and officials appointed by the Treasury to assist in the preparation of the consolidation information (including the relevant accounting and disclosure requirements and all relevant consolidation adjustments).

13.4 Audit and laying before Parliament

- 13.4.1** The Comptroller and Auditor General will examine the accounts to satisfy themselves that they present a true and fair view, consistent with the guidance in the FReM.
- 13.4.2** Treasury shall lay accounts and reports before the House of Commons in accordance with an order under [section 11](#)(4) of the Government Resources and Accounts Act 2000. An order made by the Treasury under section 11(6) of the Government Resources and Accounts Act must specify the relevant dates for scrutiny by the Comptroller and Auditor General and those dates have been specified in SI 2010/570.
- 13.4.3** A governance body will review the accounts.

ANNEX 1 – Statement of Accounting Officer's responsibilities

Introduction

This Annex contains three model Statements of Accounting Officer's Responsibilities. The first is for an entity with a single Accounting Officer 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]*. 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 income and expenditure, Statement of Financial Position 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]*;

- prepare the [accounts] [financial statements] on a going concern basis; and

- confirm that the Annual Report and Accounts as a whole is fair, balanced and understandable and take personal responsibility for the Annual Report and Accounts and the judgements required for determining that it is fair, balanced and understandable.

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

* Delete as appropriate.

Accounting Officer is answerable, for keeping proper records and for safeguarding the [name of entity]'s assets, are set out in Managing Public Money published by the HM Treasury.

As the Accounting Officer, I have taken all the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that [name of entity's] auditors are aware of that information. So far as I am aware, there is no relevant audit information of which the auditors are unaware.

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 income and expenditure, Statement of Financial Position 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;

- prepare the [accounts] on a going concern basis; and

- confirm that the Annual Report and Accounts as a whole is fair, balanced and understandable and take personal responsibility for the Annual Report and Accounts and the judgements required for determining that it is fair, balanced and understandable.

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 request[s] for resources 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 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 Managing Public Money published by HM Treasury.

As the Accounting Officer, I have taken all the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that [name of entity's] auditors are aware of that information. So far as I am aware, there is no relevant audit information of which the auditors are unaware.

Model Statement of Accounting Officer's responsibilities for a government department preparing consolidated resource accounts that include NDPBs [and other arm's 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 arm's 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 income and expenditure, Statement of Financial Position 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 non-departmental [and other arm's 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;
- prepare the accounts on a going concern basis; and
- confirm that the Annual Report and Accounts as a whole is fair, balanced and understandable and take personal responsibility for the Annual Report and Accounts and the judgements required for determining that it is fair, balanced and understandable.

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 arm's 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 arm's length]* public body for which the Accounting Officer is responsible, are set out in *Managing Public Money* published by HM Treasury.

As the Accounting Officer, I have taken all the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that [name of entity's] auditors are aware of that information. So far as I am aware, there is no relevant audit information of which the auditors are unaware.

ANNEX 2 – Note on related party disclosures

This annex suggests forms of words that might be used by entities to which the interpretations of IAS 24 apply.

[Name of body] is a [category of body: for example, executive agency] of [name of department] [Name of department] is regarded as a related party. During the year, [name of body] has had [a (significant) number of / various] material transactions with the Department and with other entities for which the Department is regarded as the parent Department, viz:

[list of main other agencies, trading funds, non-departmental public bodies and other bodies sponsored by or the responsibility of the parent Department.]

or

The Department is the parent of the agencies [and other bodies, if appropriate] shown in note x and sponsor of the non-departmental public bodies shown in note x. These bodies are regarded as related parties with which the Department has had various material transactions during the year.

and

In addition, [name of body] has had a [small number of] [various material] transactions with other government departments and other central government bodies. Most of these transactions have been with [name of main entities].

and

either: During the year, no [Minister], Board member, key manager or other related parties has undertaken any material transactions with [name of body] during the year.

or: During the year [name of body] entered into the following material transactions with [give name and type of related party (for example, Minister, Board member etc.) and details of the transactions].

ANNEX 3 – Differences between budgets and accounts

As a result of the implementation of the Treasury's Alignment project in 2011-12 most differences between Resource accounts and budgets have now been removed. The majority of transactions should therefore be recorded in budgets at the same value and with the same timing as in accounts. There are however some outstanding misalignments, these are set out in the tables below. Treasury will continue to try and minimise the differences between budgets and accounts consistent with the principles of alignment.

Table 1: The main differences between the Statement of Comprehensive Net Expenditure (SoCNE) and resource budgets

Departments' own spending	The SoCNE includes capital grants; these score in capital budgets
	The SoCNE score the creation of provisions. The release and payment are both movements on the Statement of Financial Position. In budgets, the creation and release score to AME whereas the payment scores to DEL.
Departments' income	Equity withdrawals from public corporations may score in the SoCNE if they are treated as special dividends and would in all cases score in capital budgets.
	Income that is classified as a capital grant, such as a donation that is to be used to finance acquisition of a capital asset, scores in the capital budget.
Support for local authorities	Capital grants to local authorities score in the SoCNE and in capital budgets
Public corporations	Capital grants to public corporations score in the SoCNE and in capital budgets for public corporations on the external finance basis.
	Equity withdrawals from public corporations may score in the SoCNE as special dividends and will in all cases score in capital budgets for public corporations on the external finance basis.
Public Private Partnerships (PPPs)	PPP contracts recorded as service concessions in accounts will be recorded in budgets on the basis of National Accounts standards, which may lead to a different balance sheet treatment of the asset. Departments should ensure that they appropriate budgetary cover before entering into PPP transactions.
Research and development	Research and development expenditure that meets the criteria under the National Accounts are recorded as capital in budgets. This may differ to the treatment in resource accounts where research expenditure is usually expensed in the SoCNE and development expenditure is capitalised in accordance with IAS 38 <i>Intangible Assets</i> as adapted in the FRoM.

Table 2: The main differences between the capital budget and resource account entries for total net additions to non-current assets and investments

Departments' own spending	Capital budgets include capital grants; these score in the resource account SoCNE
	In a limited range of cases, purchase and disposal of stocks scores in capital budget, but are not transactions in non-current assets in the resource account, which treats the transaction as dealing in current assets.
Departments' income	Income that counts as capital transfers in the national accounts, such as a donation to finance construction of an asset, passes through capital budgets.
	There are limits on the quantum of income from the sale of assets that departments may keep in their budgets.
Support for local authorities	Capital grants to local authorities score in the SoCNE and in capital budgets
	Capital budgets include supported capital expenditure (revenue) which does not feature in resource accounts
Public corporations	Capital grants to public corporations score in the SoCNE and in capital budgets
	Budgets for public corporations include public corporation market and overseas borrowing which is not included in resource accounts
	If a trading fund that is a department in its own right borrows from the National Loans Fund the "parent" department for budgeting purposes will show no accounting entry. However, its budget will show borrowing net of repayments
	Equity withdrawals from public corporations may score in the SoCNE as special dividends and will always score in capital budgets for public corporations on the external finance basis.
Service concessions	Service concession arrangements which are subject to IFRIC 12 in accounts, are measured according to National Accounts methodologies, based on international frameworks.
Research and development	Research and development expenditure that meets the criteria under the National Accounts are recorded as capital in budgets. This may differ to the treatment in resource accounts where research expenditure is usually expensed in the SoCNE and development expenditure is capitalised in accordance with IAS 38 <i>Intangible Assets</i> as adapted by the FReM.

ANNEX 4 – Definitions for consultants and temporary staff

Professional Services External Resources (non-payroll staff) – Definitions

Professional services external resources can generally be split into two broad categories:

Temporary staff

- Temporary (agency) workers
- Interim managers
- Specialist Contractors

Consultancy

- Finance
- IT/IS
- Strategy
- Legal
- Property and Construction
- Human Resource, Training and Education
- Technical
- Marketing and Communications
- Organisation and change management
- Procurement
- Project Portfolio Management (PPM)

Understanding the difference between different types of resource is essential to ensure that the right type of service and skills are purchased, at the right price and from the right supplier so that value for money is achieved.

Temporary (non-payroll) Staff

The provision of workers to cover business-as-usual or service delivery activities within an organisation. Temporary Staff are also often referred to as “Contingent Labour”. These workers may be “off-payroll workers” (see definition and requirements under to [6.5.30](#)), who engage via an Intermediary such as their own limited company, or they may be on the payroll of another organisation within the supply chain.

Please note that these definitions apply to central government only – local government categorisation may differ.

Temporary Workers – Admin and Clerical	<p>Admin & Clerical agency staff are normally lower grade individuals who are filling in for a role within the organisational structure and are ideally used on a short-term basis.</p> <ul style="list-style-type: none"> • normally engaged on an ad hoc or temporary basis to fulfil requirements within established posts. • involves providing cover (e.g., for a vacancy, holiday, or sickness) or additional resource (e.g., for a seasonal peak in workload). • may be undertaking operational or professional roles.
Interim Managers	<p>Interims are normally middle - to senior-grade staff working in an organisation, concerned with the fulfilment of professional functional or senior management positions within the organisational structure (usually covering business-as-usual activities or providing cover for a role) and ideally engaged on a short-term basis.</p> <ul style="list-style-type: none"> • may involve providing cover (e.g., for a vacancy, holiday, or sickness) or additional resource (e.g., for a new team until someone is recruited, or a seasonal peak in workload).

	<ul style="list-style-type: none"> • may include professional interim staff (e.g., senior qualified professionals in areas such as legal, finance, audit) and interim managers (including up to the most senior levels of the organisation). • likely to include a degree of organisational involvement (e.g., managing staff, representation at meetings) • typically engaged through an agency although in some cases may be engaged directly
Specialist Contractors	<p>Specialists are normally middle to senior grades, used to provide expertise that is not available in-house, fulfilling functional or senior positions within the organisational structure and ideally engaged on a short-term basis.</p> <ul style="list-style-type: none"> • may include sub-categories of finance, HR, IT, legal, logistics, marketing, medical, procurement, estates, technical and other. • not staff substitution: specialists are used to provide additional resource, skills, and expertise, not to cover vacancies etc. • should not include management functions or similar organisational involvement. • usually involved in a defined package of work or project rather than covering a day-to-day workload or defined job/ role. • in some instances, may include a degree of organisational involvement (e.g., managing staff, representation at meetings) • not always provided through an agency.

Consultancy

The provision to management of objective advice relating to strategy, structure, management, or operations of an organisation, in pursuit of its purposes and objectives. Such advice will be provided outside the 'business-as-usual' environment when in-house skills are not available and will be time-limited. Consultancy may include the identification of options with recommendations, or assistance with (but not the delivery of) the implementation of solutions.

Finance Consultancy	The provision of objective finance advice including advice relating to corporate financing structures, accountancy, control mechanisms and systems. This includes both strategic and operational finance.
IT/IS Consultancy	The provision of objective IT/IS advice including that relating to IT/ IS systems and concepts, strategic IT/IS studies, and development of specific IT/IS projects. Advice related to defining information needs, computer feasibility studies, making computer hardware evaluations and to e-business should also be included.
Strategy Consultancy	The provision of strategic objective advice including advice relating to corporate strategies, appraising business structures, value for money reviews, business performance measurement, management services, product or service design, and process and production management.
Legal Consultancy	The provision of external legal advice and opinion including advice in connection with the policy formulation and strategy development particularly on commercial and contractual matters.
Property & Construction Consultancy	Provision of specialist advice relating to property services and estates including portfolio management, design, planning and construction, tenure, holding and disposal strategies.

Human Resource, Training & Education Consultancy	The provision of objective HR advice including advice on the formulation of recruitment, retention, manpower planning and HR strategies, and advice and assistance relating to the development of training and education strategies.
Technical Consultancy	The provision of technical advice including the provision of technical studies, prototyping and technical demonstrators, concept development, project and task based technical advice.
Marketing & Communications Consultancy	The provision of objective marketing and communications advice including advice on the development of publicising and the promotion of the department's business support programmes, including advice on design, programme branding, media handling, and advertising.
Organisation & Change Management Consultancy	Provision of objective advice relating to the strategy, structure management and operations of an organisation in pursuit of its purposes and objectives. Advice related to long range planning, re-organisation of structure, rationalisation of services, general business appraisal of organisation should also be included.
Procurement Consultancy	The provision of objective procurement advice including advice in establishing procurement strategies.
PPM Consultancy	The provision of advice relating to ongoing programmes and one-off projects. Advisory support in assessing, managing and mitigating the potential risks involved in a specific initiative; work to ensure expected benefits of a project are realised.

ANNEX 5 – Links to relevant guidance and resources

Illustrative financial statements are published alongside the Frémý each year, and other supporting material may be included if relevant.

<https://www.gov.uk/government/collections/government-financial-reporting-manual-frem>

Resources for better narrative reporting include:

[The government financial reporting review](#) includes:

- (a) a perspective on the history and purpose of government financial reporting;
- (b) a collection of best practice examples with a particular focus on performance reporting; and
- (c) a map of the public sector financial reporting landscape.

The National Audit Office co-sponsor the Building Public Trust awards for excellence in public sector financial reporting. [Best practice guidance](#) sets out the NAO's criteria for a good annual report, and shows how different bodies met them.

In 2017 the Financial Reporting Council (FRC) [published a report](#) on private sector best practice in risk and viability disclosures. Its recommendations give insights into reporting on sensitive issues, and meeting user needs.

Microsoft Word can analyse your text for readability. The [Microsoft Office website](#) explains the scores they offer and how to interpret them.

The website of the Plain English Campaign shares [a number of free guides](#) that may be useful. They also have [a tool that can analyse sections of text](#) for sentence length and word use.

The [Hemingway App](#) is another tool for assessing readability. Text can be copied straight into the webpage for review.

[This article](#) from the Neilson Norman Group shares insights into how people read on the web. The headline is that readers scan pages for key words rather than reading them through.

The Orange Book gives best practice guidance on risk management in the public sector.

<https://www.gov.uk/government/publications/orange-book>

The Government Finance Function Standard provides a framework for the wider context of government finance, and sets expectations for the effective management and use of public funds.

<https://www.gov.uk/government/publications/government-finance-standards-page>

Sustainability and environmental reporting guidance sets out the minimum requirements and underlying principles to be adopted in preparing information and provides some best practice guidance

<https://www.gov.uk/government/collections/public-sector-annual-reports-sustainability-reporting-guidance>

Supply Estimates guidance manual is a reference guide for anyone with direct or indirect responsibility for the Supply Estimates process

<https://www.gov.uk/government/publications/supply-estimates-guidance-manual>

Consolidated Budgeting Guidance provides guidance to government departments on the budgeting framework that applies for expenditure control

<https://www.gov.uk/government/collections/consolidated-budgeting-guidance>

Managing Public Money provides guidance on how to handle public funds of all kinds

<https://www.gov.uk/government/publications/managing-public-money>

Dear Accounting Officer letters are used to provide specific advice on issues of accountability, regularity and propriety and annual accounting exercises

<https://www.gov.uk/government/collections/dao-letters>

Whole of Government Accounts guidance and data collection tool inform preparers on submitting standardised accounts information

<https://www.gov.uk/government/collections/whole-of-government-accounts>

Cabinet Office Employer Pension Notices (EPNs) set detailed requirements for disclosure of salary, pension and compensation information

<http://www.civilservicepensionscheme.org.uk/employers/employer-pension-notices/>

Fair Pay Disclosures

[Hutton Review of Fair Pay - Implementation guidance.pdf \(publishing.service.gov.uk\)](#)

Introduction to classification webpage includes a guidance document on receipts which sets out how actual or potential income streams are likely to be classified in the National Accounts by the Office of National Statistics

<https://www.gov.uk/government/publications/introduction-to-classification>

Audit Scotland have carried out a number of good practice reviews into financial reporting into financial reporting

<https://www.audit-scotland.gov.uk/our-work/technical-guidance#practice>

Financial Reporting Advisory Board (FRAB) webpage includes details of the Board including membership, Terms of Reference and minutes:

<https://www.gov.uk/government/collections/hmt-financial-reporting-advisory-board-minutes>

The Simplifying and Streamlining project and report

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/330725/simplifying_annual_reports_print.pdf

The UK Corporate Governance Code July 2018

<https://www.frc.org.uk/getattachment/88bd8c45-50ea-4841-95b0-d2f4f48069a2/2018-UK-Corporate-Governance-Code-FINAL.pdf>

Corporate Governance in Central Government Departments: code of good practice

<https://www.gov.uk/government/publications/corporate-governance-code-for-central-government-departments-2017>

Public Sector Time Publication Requirements Guidance (latest guidance)

<https://www.gov.uk/government/publications/trade-union-facility-time-publication-service-2018-19>

Public Sector Time Publication Requirements Guidance (2017-18 guidance includes Annex A disclosure example)

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/713318/Public_Sector_Facility_Time_publications_requirements_guidance.pdf

FRC Guidance on the Strategic Report- the principles of this guidance can be applied to public sector annual reports

<https://www.frc.org.uk/accountants/accounting-and-reporting-policy/clear-and-concise-and-wider-corporate-reporting/narrative-reporting/guidance-on-the-strategic-report>

Reporting of off-payroll appointments – HM Treasury guidance for tax assurance process of public sector appointees

<https://www.gov.uk/government/publications/guidance-for-tax-assurance-process-of-public-sector-appointees>

FINANCE AND RESOURCES COMMITTEE

DATE	26 August 2025
TITLE OF REPORT	Financial Sustainability of Scotland's Colleges
REFERENCE	07.5
AUTHOR AND CONTACT DETAILS	Elaine McKechnie – Vice Principal, Finance, Resources & Sustainability Elaine.McKechnie@slc.ac.uk
PURPOSE:	To present an overview of The Education, Children and Young People Committee's June 2025 meeting at which the topic of 'Financial Sustainability of Scotland's Colleges' was discussed.
KEY RECOMMENDATIONS/ DECISIONS:	Members are asked to: <ul style="list-style-type: none"> • note the content of the report.
RISK	Risks of failure to create financial sustainability for the College relate to: <ul style="list-style-type: none"> • Going concern through insufficient finance; unable to continue core operations and service the needs of students in the community; and • Reputational damage; due to ineffective controls and processes to mitigate against failure.
RELEVANT STRATEGIC AIM:	<ul style="list-style-type: none"> • The Student Experience • People Development & Culture • Growth and Innovation • Sustainability
SUMMARY OF REPORT:	<ul style="list-style-type: none"> • The Education, Children and Young People Committee's held a meeting in June 2025 at which the topic of 'Financial Sustainability of Scotland's Colleges' was discussed. • The challenges in the sector are well known but there is hope that a revision of the funding model for 26/27 to enhance flexibility might better support Colleges financially. • Despite the challenges, the Minister for Higher and Further Education told the Committee that the college sector is experiencing a period of "evolution" and he is optimistic in how the college sector will develop as colleges align their offer better to the "needs of the economy and the needs of learners."

1 INTRODUCTION

1.1 This paper provides an overview of The Education, Children and Young People Committee's June 2025 meeting at which the topic of 'Financial Sustainability of Scotland's Colleges' was discussed. key considerations and changes within the Government Financial Reporting Manual (FreM) 2024/25.

2. BACKGROUND

2.1 The Education, Children and Young People Committee is a key committee of the Scottish Parliament, established in June 2021, that focuses on policies and legislation affecting education and the welfare of children and young people across Scotland.

2.2 The Committee agreed to undertake an evidence session on the financial sustainability of the college sector. As a result, the Committee in June 2025 was joined by key representatives who brought unique insights and practical examples of the financial challenges facing the sector.

2.2.1 Angela Cox, Chair, College Principals Group, Colleges Scotland;

2.2.2 Andy Witty, Director of Strategic Policy and Corporate Governance, Colleges Scotland;

2.2.3 Joanna Campbell, Principal and Chief Executive, Glasgow Kelvin College;

2.2.4 Professor Wayne Powell, Principal and Chief Executive, Scotland's Rural College; and

2.2.5 Vicki Nairn, Principal and Vice-Chancellor, University of the Highlands and Islands.

2.3 The briefing for this meeting can be viewed here:

[https://www.parliament.scot/~media/committ/10861/Paper-1 Colleges-Cover-Note 18-June](https://www.parliament.scot/~media/committ/10861/Paper-1_Colleges-Cover-Note_18-June)

3. KEY FINANCIAL CHALLENGES FACING THE SECTOR

3.1 At the time of the Committee, Scotland's colleges were nearing the end of AY 2024/25 in a state of severe financial challenge caused by sustained underfunding of the sector, which has not kept pace with inflation or cost rises in outgoings like energy bills.

3.2 College funding in real terms has reduced by 17% since 2021/22, a percentage expected to rise. This is clearly not sustainable.

3.3 The failure to maintain colleges in a "steady state" means opportunity cost for individuals, lost economic growth and turning students away from what could be their only chance to access education and training.

3.4 The paper sets out key contributing factors to poor financial health across Scotland's Colleges, including but not limited to:

3.4.1 Increasing staff costs due to cost of living pay awards, higher employer pension contributions, and job evaluation outcomes for support staff;

- 3.4.2 Challenges in meeting student activity thresholds due to demographic changes and competition from universities and employment opportunities.
- 3.4.3 Funding Recovery: Uncertainty over funding recovery due to lower recruitment levels and ongoing discussions about potential mitigations.
- 3.4.4 The impact of cost efficiencies (including the impact of reduced staff numbers, changes to frontline student services and potential decisions about the future of particular campuses on the quality of student experience, the health and wellbeing of college staff, and breadth and width of the curriculum offered to students
- 3.4.5 The uncertain economic outlook, with high inflation and rising interest rates; and
- 3.4.6 The need to support capital projects such as addressing the backlog of estates maintenance, digital requirements, and any issues with Reinforced Autoclaved Aerated Concrete (RAAC).

4. KEY OPPORTUNITIES FOR FINANCIAL SUSTAINABILITY

- 4.1 The briefing then sets out the following key considerations given in relation to central funding received:
 - 4.1.1 Colleges Scotland is advocating for the current funding model to be reviewed for 2026/27 onwards as the current model is inflexible, particularly when trying to respond to the needs of employers and industry and create short, sharp courses like micro-credentials. Colleges should also be able to use funding to achieve better outcomes regionally and locally without over bureaucratic reporting conditions.
 - 4.1.2 The Committee recommends in the Regionalisation Inquiry Report that the Scottish Government and SFC urgently give colleges as many financial and operational flexibilities as possible to help them deliver on the various strands of their work. This could have included but not be limited to: flexibility for year end, flexibility on SFC outcomes, and flexibility in terms of access to additional funds.
 - 4.1.3 Continued dialogue with Scottish Government around funding for National Insurance.
 - 4.1.4 Through the work of the Tripartite Alignment Group, formalised changes to guidance on college asset disposals have been issued so that colleges retain a more significant proportion of the value of any sale to invest locally.
- 4.2 It is further noted in the briefing that The Minister for Higher and Further Education told the Committee that the college sector is experiencing a period of “evolution” and he is optimistic in how the college sector will develop as colleges align their offer better to the “needs of the economy and the needs of learners.

5. CONCLUSIONS

- 5.1 The Committee regularly meets to hold evidence sessions, like this one. While the challenges in the sector are well known, it is hoped that the Committee can be a

positive advocate for the College sector to drive further financial investment and create more sustainability.

6. RISKS AND ASSURANCES

6.1 Risks of failure in creating financial sustainability relate to:

- 6.1.1 Going concern through insufficient finance; unable to continue core operations and service the needs of students in the community; and
- 6.1.2 Reputational damage; due to ineffective controls and processes to mitigate against failure.

7. EQUALITIES

7.1 There are no new matters for people with protected characteristics or from areas of multiple deprivation which arise from consideration of the report.

8. RECOMMENDATIONS

8.1 Members are asked to:

- 8.1.1 note the content of the report.

Appendix: Education, Children and Young People Committee; Wednesday 18 June 2025; 21st Meeting, 2025 (Session 6)

FINANCE AND RESOURCES COMMITTEE

DATE	26 August 2025
TITLE OF REPORT	College Infrastructure Investment Plan
REFERENCE	07.6
AUTHOR AND CONTACT DETAILS	Paddy Feechan, Head of Finance paddy.feechan@slc.ac.uk
PURPOSE:	To provide members with a progress update on the Scottish Funding Council's College Infrastructure Investment Plan.
KEY RECOMMENDATIONS/ DECISIONS:	Members are recommended to: <ul style="list-style-type: none"> • note the progress of the Scottish Funding Council's Infrastructure Investment Plan.
RISK	<ul style="list-style-type: none"> • That the College cannot maintain financial stability. • That the College has limited funds for capital investment.
RELEVANT STRATEGIC AIM:	<ul style="list-style-type: none"> • The Student Experience. • Growth and Innovation • Sustainability
SUMMARY OF REPORT:	<ul style="list-style-type: none"> • The Scottish Funding Council have released an update to the College Infrastructure Investment Plan. This update is attached for review. • There has been significant work done to date on the Plan, detailed in the pages of the attached document. • The SFC have outlined the next phase of work to be undertaken over the next 12 months.

1 INTRODUCTION

- 1.1. This paper provides a brief commentary on the progress made by the Scottish Funding Council (SFC) with the College Infrastructure Investment Plan (College IIP). It outlines the significant work done to date and the work to be progressed at pace, prior to publication of the College IIP in autumn 2026. The full report can be found here: <https://www.sfc.ac.uk/publications/college-infrastructure-investment-plan-progress-report/>

2. DEVELOPMENT OF COLLEGE IIP

- 2.1 The College Infrastructure Strategy (CIS) was developed in response to stakeholder feedback including the college sector, Scottish Government and Audit Scotland. Developed in partnership with the college sector, the CIS signposts a more structured and methodical approach to investment in the sector.
- 2.2 The College IIP is a call to action for all stakeholders to ensure that future estate and other infrastructure requirements across all colleges can be appropriately prioritised and funded to maximise outcomes and ensure a consistent and balanced approach to investment.
- 2.3 When complete, the College IIP will describe the new process to be applied in the development of college infrastructure investment projects and report on ongoing research into any new capital funding models that may become available to colleges.

3. PROGRESS UPDATE

- 3.1. The baselining exercise has provided a single comprehensive dataset of the entire college estate. This was a complex exercise with significant work done by colleges, SFC and others.
- 3.2. This dataset will allow the SFC to begin discussions with colleges to consider prioritisation, rationalisation, shared services and collaboration in a strategic and coherent way as they consider the investment required for the college estate of the future, moving from place-based provision to outcome-based provision.
- 3.3. The proposals emerging from the College Transformation Framework, including reformed curriculum planning across the college sector, will also feed into this work, while the changes to college disposal guidelines will help facilitate future investment.
- 3.4. The next phase of work will further develop the findings from the baselining exercise. The SFC will also launch the Scottish Capital Investment Manual (SCIM) for Colleges, a new process to assess capital projects, with supporting templates and guidance to ensure appropriate level of investment into projects that support the best possible outcomes for the sector, learners and communities.

4. NEXT STEPS

- 4.1. The next phase of work will require colleges to submit up-to-date infrastructure strategies and Statements of Need that reflect principles of the CIS and future curriculum strategies and plans.
- 4.2. SFC will continue to work with other bodies including Scottish Futures Trust, Environmental Association of Colleges and Jisc to leverage expertise and best practice.

- 4.3. This phase of work will look to build on the successful delivery of the Navigator Tool and the baselining. It will incorporate the outputs from the Tripartite Group and the College Transformation Framework.

5. EQUALITIES

- 5.1. There are no new matters for people with protected characteristics or from areas of multiple deprivation which arise from consideration of the report.

6. RISK AND ASSURANCE

- 6.1. That the College cannot maintain financial stability.
- 6.2. That the College has limited funds for capital investment.

7. RECOMMENDATIONS

- 7.1. Members are recommended to:
- 7.1.1. note the progress of the Scottish Funding Council's Infrastructure Investment Plan.