

FRAB PRESS RELEASE – ISSUED ON PUBLICATION OF THE 2001/02 REPORT

FRAB

Financial Reporting Advisory Board

Contact: Sue Gamble 020 7270 4562

4 July 2002

FRAB REMIT EXTENDED

The Financial Reporting Advisory Board has today sent a copy of its fifth report to Parliament and for the first time the report will also be laid before the Scottish Parliament and the Northern Ireland Assembly. This reflects the extension during the year of the Board's remit to the devolved administrations in Scotland and Northern Ireland on the application of financial reporting standards and principles. The scope of the advice given to HM Treasury was also extended to include the reporting standards of the National Health Service Trusts in England.

Commenting on the Board's report, its Chairman, Elwyn Eilledge, CBE, said:

“Board members and I welcome the extension to our remit. It represents an endorsement of our work and a major step forward in promoting first class financial reporting by Government.”

The Report describes the Board's work from April 2001 to March 2002 in advising on the development of financial reporting by central government to promote best practice. It sets out the Board's views on a number of issues, including:

FRS 17 - Retirement Benefits: The Treasury proposals for implementing FRS 17, agreed by the Board, are that, in addition to defined contribution schemes, employers contributing to the following types of scheme will also account as if they were defined contribution schemes, in accordance with the FRS:

- Multi-employer defined benefit schemes.
- Defined benefit schemes which have a separate parliamentary Estimate, and for which the liability for any deficit is therefore recognised and

provided for by Parliament separately from the employing department's operational funding.

For both types of defined benefit scheme, the scheme liabilities (and any assets) will be recognised in separately published scheme financial statements, which, subject to the following departures, will follow all the measurement, recognition, and disclosure requirements of the FRS. Those departures are:

- The discount rate will be an assumed long-term real rate of return to be earned on a portfolio of long-dated index-linked gilts. The Board considered this departure from the FRS's required AA corporate bond rate, in favour of a more prudent and onerous approach, appropriate – primarily because of the more limited ability, compared with private sector schemes, of central government to reduce its liability in respect of public sector schemes.
- The frequency of full actuarial valuations will be every four years, with biennial updates. This departure from the FRS's requirement for every three years was permitted to fit better with the spending review process.

The Board considers neither of these departures to be significant. The Treasury will implement its proposals over the timescale permitted by the FRS¹.

Whole of Government Accounts - Social Security expenditure: The Board agreed to the Treasury's proposed approaches to non-pension benefits and basic state pensions. Provisions should not be set up for future non-pension benefit expenditure. Pending the outcome of the deliberations of a steering committee set up by the International Federation of Accountants' Public Sector Committee to develop an International Public Sector Accounting Standard for social security policy obligations, the working assumption should be that future state pension expenditure should not be provided for either.

NOTES FOR EDITORS

1. The FRAB is an independent body. It was set up in 1996 to oversee the Treasury's Resource Accounting Manual, which sets out how Government departments will prepare their resource accounts. Its remit was subsequently extended to advise on accounting guidance in respect of executive non-departmental public bodies and trading funds; and on accounting policies underlying whole of government accounts.
2. During the course of the year the Board's remit was extended further to include the financial and reporting standards and principles in respect of accounts for which the Scottish Ministers and the Department of Finance and Personnel, Northern Ireland are responsible for issuing reporting requirements, and in respect of the National Health Service Trusts in England.
3. The Board's aim is to help ensure that, as far as possible, the accounting guidance within its remit follows generally accepted accounting practice

¹ The Accounting Standards Board has since announced (2 July) its proposed extension to the transitional period for implementing FRS 17. The outcome will be considered in due course.

(GAAP) in the UK and that any departure from or modifications to GAAP are fully explained and justified.

4. The Government Resources and Accounts Act 2000 and the Government Resource Accounts Act (Northern Ireland) 2001 have put the Board's role on a statutory basis. The Acts require resource accounts and whole of government accounts to be prepared with a view to presenting a true and fair view, and to conform with GAAP subject to such adaptations as are necessary in the context of these accounts. The Acts require respectively the Treasury and the Department of Finance and Personnel (Northern Ireland) to consult an appropriate advisory group on financial reporting principles and standards. The Treasury, in consultation with the Comptroller and Auditor General in accordance with the 2000 Act, has determined that the Board should be the advisory group.
5. Resource Accounting and Budgeting places the planning and control of Government expenditure on an accruals accounting basis. This measures resource consumption rather than just cash flow, comparable to the way that the private sector manages its finances and prepares its accounts.
6. Government departments have prepared published resource accounts in respect of the financial year 1999-2000 onwards. The first stage of resource budgeting was introduced in respect of the financial year 2001-02 onwards.
7. The Board's fifth report covers the period from April 2001 to March 2002, during which it considered amendments to the Resource Accounting Manual, the Trading Funds Accounts Guidance and the Executive NDPB Annual Report and Accounts Guidance to make them applicable to the accounts for 2001-02. The Board also considered (in March 2002) some amendments for the 2002-03 version of these documents; and, following the extension of its remit, examined and agreed proposed differences between the Resource Accounting Manual and accounting guidance for Northern Ireland and NHS trusts in England. The Board continued its consideration of issues relating to the department of Whole of Government Accounts.
8. The Board comprises:

Chairman:

Elwyn Eilledge, CBE, Director of BG Group plc and former Chairman of BTR plc, Senior Partner of Ernst and Young and Member of the Accounting Standards Board.

Members:

Colin Balmer, Finance Director, Ministry of Defence

Mike Barnes, Head of Technical Development, Audit Commission

Dr Peter Collings, Principal Finance Officer, Scottish Executive

Brian Delaney, Head of Accountability and Accounting Services Division,
Northern Ireland (Department of Finance and Personnel)

Russell Frith, Director of Audit Strategy, Audit Scotland

Heather Jackson, Director of Finance, HM Land Registry

Graham Jenkinson, Director, National Expenditure and Income Division,
Office for National Statistics

Ciaran Martin, Head of Resource Budgeting, HM Treasury

Professor David Mayston, Professor of Public Sector Economics, Finance and
Accountancy, University of York

Nigel Reader, Director of Finance, Environment Agency

Martin Sinclair, Assistant Auditor General, National Audit Office

Jeff Tomlinson, Head of Accounting, Department of Health, England

Ken Wild, Partner, Deloitte & Touche, Member of the Accounting Standards
Board and (until December 2001) Chairman of its Public Sector and Not for
Profit Committee

9. Copies of the FRAB's fifth report can be purchased from the Stationery Office (ISBN Number 010291639X, £8.00). The report is also available on the internet at www.hm-treasury.gov.uk where it can be accessed via the Documents section / public spending and services / audit and accounting / Financial Reporting Advisory Board.
10. Media enquiries about Resource Accounting and Budgeting should be addressed to Shazia Ejaz in the Treasury press office on 020 7270 1755.