



HM TREASURY

Financial Reporting Advisory Board Paper

AMENDMENTS TO THE FReM IN RESPECT OF PREPARATION OF REMUNERATION REPORT

Issue:	Amending the FReM to clarify that NDPBs with charitable status should prepare a Remuneration Report.
Impact on guidance:	The proposed text in Annex A relates to the FReM for 2006-07.
IAS/IFRS adaptation?	No.
IPSAS compliant?	IPSAS <i>20 Related Party Disclosures</i> requires details of remuneration of key managers to be disclosed in notes to the accounts. The requirement for a Remuneration Report complies with the spirit if not the letter of the IPSAS.
Interpretation for the public sector context?	No.
Impact on budgetary regime?	None.
Alignment with National Accounts	N/A.
Impact on Estimates?	None.
Recommendation:	The FRAB is invited to consider the proposed amendments to the FReM to clarify that NDPBs with charitable status should prepare a Remuneration Report.
Timing:	The proposed amendments will affect the FReM for 2006-07.

DETAIL

Background

1. A paper put to the FRAB for its meeting on 21 September 2006 (FRAB (81) 07) analysing compliance with salary and pension disclosures noted that a number of NDPBs with charitable status

were complying with the recommendations of the Charities SORP rather than those in the FReM (which are for the preparation of a Remuneration Report).

2. The reason for this approach is that a couple of paragraphs in the FReM are capable of differing interpretations. Paragraph 1.2.7 recognises that NDPBs with charitable status have to comply with the Charities SORP, but also requires them to comply with the FReM where its requirements go beyond those in the SORP. Salary and pension disclosures are noted as one example where the FReM's requirements go beyond the SORP's.

3. On the other hand, paragraph 7.2.1 notes that section 7.2 (which deals with the Annual Report) does not apply to NDPBs with charitable status (as the requirements for a Trustees' Report in the Charities SORP fulfil the same purpose as an Annual Report). But as a Remuneration Report forms part of the Annual Report, some NDPBs with charitable status have interpreted 7.2.1 to mean that they need not prepare a Remuneration Report.

4. As the FRAB has never suggested that NDPBs with charitable status should not comply with the salary and pension disclosures that apply to other entities falling within the scope of the FReM, the proposal is to amend the FReM to clarify that the requirement to prepare a Remuneration Report applies to NDPBs with charitable status.

Impact on disclosures in resource and other accounts

5. The proposals affect only a small number of entities, ie those NDPBs with charitable status which are currently following the provisions of the Charities SORP as regards salary and pension disclosures rather than preparing a Remuneration Report. Comments from respondents were supportive, although the point was made that the SORP requires information on remuneration to be given in the notes. It may therefore be that some charitable NDPBs will include details of remuneration policies within a separate Remuneration Report, with details of the salary and pension entitlements of key managers being given in the notes; this approach is satisfactory as it achieves the desired outcome of providing information about named individuals.

IAS/IFRS compliance

6. IAS 24 *Related party disclosures* requires details of salary and pension entitlements to be given by way of note. Thus the requirement for a Remuneration Report complies with the spirit, if not the letter, of IAS 24.

IPSAS compliance

7. IPSAS 20 *Related party disclosures* also requires the disclosure of salaries and pensions by way of note and the requirement for a Remuneration Report complies with the spirit, if not the letter, of IPSAS 20.

Proposed text for the IFRS-based Government Financial Reporting Manual

8. See Annex A for the proposed amendments to the FReM for 2006-07.

Impact on the budgetary regime

9. There will be no impact on the budgetary regime, as the proposals relate only to disclosures.

Summary and recommendation

10. This paper proposes amendments to the FReM for 2006-07 to clarify that NDPBs with charitable status should prepare a Remuneration Report. The FRAB is invited to comment on this requirement and on the proposed wording for the FReM for 2006-07.

HM Treasury
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PROPOSED TEXT FOR THE GOVERNMENT FINANCIAL REPORTING MANUAL FOR 2006-07

NB: these proposed amendments affect only paragraphs 1.2.7, 7.2.1 and 7.2.21

- 1.2.7 Non-departmental public bodies (NDPBs) that are incorporated as companies, or that have charitable status, should comply with, respectively, the Companies Act or regulations issued under charities legislation and, where applicable, the Statement of Recommended Practice (SORP) *Accounting by Charities* issued by the Charity Commission (and, if they are both registered companies and charities, with both the Companies Act and the Charities SORP). They should also follow the principles in this Manual (for example, in recognising notional costs and preparing a Remuneration Report) where these go beyond the Companies Act or the SORP.
- 7.2.1 This section of the chapter, which provides guidance on the content of the annual report, including the Management Commentary and the remuneration report, applies in its entirety to all entities covered by the requirements of this Manual except charitable NDPBs. As required by the Charities SORP, charitable NDPBs should prepare a Trustees' Report which should take account of all the disclosures required for an annual report where these go beyond, but are not inconsistent with, the disclosures required by the Charities SORP and regulations made under Charities legislation, eg a remuneration report. The requirement for a remuneration report overrides the disclosure requirements for higher paid staff described in paragraphs 236-238 of the Charities SORP (revised 2005)..
- 7.2.21 Section 234B and Schedule 7A of the Companies Act (see also Statutory Instrument SI 2002 No 1986) apply, as interpreted for the public sector context, to all entities covered by the requirements of this Manual, including charitable NDPBs (see 7.2.1).