

Financial Reporting Advisory Board

Chairman: Elwyn Eilledge CBE

Secretary:
David Watkins
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1 Horse Guards Road
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From the Chairman

29 March 2005

Cabinet Office

SALARY AND PENSIONS DISCLOSURES

I am writing to you in the Cabinet Office to seek your assistance in achieving the highest possible standards in terms of the disclosures provided about remuneration in the accounts of central government bodies. The Financial Reporting Advisory Board believes that central government accounts should disclose details of the remuneration packages of senior public servants, in line with the requirements for directors of listed companies, and that senior public officials should not be allowed to withhold their consent to the publication of such information.

2. The Financial Reporting Advisory Board to the Treasury acts as an independent element in the process of setting accounting standards for government. The Treasury is required by the Government Resources and Accounts Act 2000 to consult the Board on financial reporting principles and standards. The Board exists to promote the highest possible standards in financial reporting by government and to ensure that any adaptations of, or departures from, generally accepted accounting practice are justified and properly explained. The Board reports annually to Parliament about its activities and highlights areas of concern.

3. In each of its reports (from 1996), the Board has raised the issue of the implementation of the principles of the Greenbury Report to the accounts of central government bodies. The Board's report for 2003-04 noted its view of the present position and I attach, for ease of reference, the relevant extract from the report. You will see that the Board was extremely disappointed that the Cabinet Office was taking so long to resolve the issue.

4. Nothing much has happened in 2004-05, either. The Board will be commenting further in this year's report on its concerns that public servants are not required by law to be as open in disclosures about their remuneration as directors of listed companies

because they can decline, under the Data Protection Act, to reveal details about their remuneration. The Board acknowledges that a Handout Bill has been prepared, which would put the disclosure requirements on to a statutory footing. The Board notes, however, the opinion of the Parliamentary Observer on the Board (Ross Cranston QC, MP) that such a Bill has little hope of being selected by a Member.

5. The accounting guidance issued by HM Treasury sets out the salary and pension disclosure requirements, which follow those set out in the Companies Act and associated Regulations. But even where individuals agree to disclose information, they are not required under the present guidance, developed by the Cabinet Office, to provide information on the various elements of the remuneration package. In particular, they do not have to identify separately bonuses and compensation payments, information that company directors have to give under paragraph 6(1) of Schedule 7A of the Companies Act. Ross Cranston noted that Parliamentary Select Committees are showing more and more interest in the component parts of senior public servants' remuneration packages in that it might have a bearing on their performance. The Board agreed that such information should be given in central government accounts in respect of senior public servants.

6. I understand that the Cabinet Office has agreed in principle to a further round of consultation on more detailed disclosures. The Board is concerned that this will result in yet more delay in introducing the disclosure requirements, which is unacceptable – particularly in the light of Cabinet Office Ministers' agreement that disclosure of senior managers' remuneration should be made a statutory requirement, as the Board reported in its 2002-03 report.

7. I should like to be able to report to Parliament this year that the Cabinet Office shares the Board's views that it is important that the public sector is at least as open as listed companies in its reporting of the remuneration packages of senior public servants. I should like, too, to report that the Cabinet Office is committed to seeking government legislation in the next Session to ensure that public servants cannot hide behind the Data Protection Act in denying Parliament and the public the right to know what senior public servants receive as a remuneration package.

8. I do hope you will be able to give me these assurances. In order that I can ask the Board Secretary to reflect the latest position in the Board's 2004-05 report and give the Board an update on the issue at its next meeting, I should be grateful if you would respond (c/o the Secretary) by 21 April.

ELWYN EILLEDGE

Approved by the Chairman and signed in his absence

Salary and pension disclosures

- 2.16 The Board considers that the level of salary and pension disclosures should be the same as for the private sector to the extent that they are relevant. The Treasury, in consultation with the Cabinet Office, considered the implications of the Directors' Remuneration Report Regulations (SI (2002) 1986)¹ that came into force in August 2002 and recommended broader disclosures on pension entitlements of senior managers and ministers. Consultation with departments and ministers meant that the Board was unable to consider and approve these changes until the very end of the 2003-04 financial year. The Cabinet Office is continuing to consider the further implications of the Regulations including replacing the lengthy disclosures in the current note to the account with a separate remuneration report. The Board looks forward to the Treasury's and the Cabinet Office's proposals in good time for application in 2004-05 accounts.
- 2.17 In its sixth report the Board reported that Cabinet Office Ministers had agreed that disclosure of senior managers' remuneration should be made a statutory requirement, as currently an individual has the ability to prevent disclosures by virtue of the Data Protection Act 1998. This year the Board noted that Statutory Instrument (2002) 1986 amended the Companies Act and made the requirement to disclose information about individuals' salary and pension entitlements part of GAAP. As section 5(3)(b) of the Government Resources and Accounts Act 2000; section 9(3)(b) of the Government Resources and Accounts Act (Northern Ireland) 2001; and the Accounts Directions in Scotland require resource accounts to follow GAAP as adapted for the public sector, there is now no need for separate legislation to require the disclosure of salary and pension information in departmental resource accounts. However the position is less clear for agencies, trading funds, non-departmental public bodies and NHS Trusts, as there is no direct equivalent Act that applies to these bodies. The Cabinet Office has, therefore, booked a provisional legislative slot for 2005-06.
- 2.18 The Board notes that even if this legislative slot is achieved it is unlikely that the requirements for disclosure of senior managers' remuneration will be applicable until financial year 2006-07 at the earliest. The Board is extremely disappointed that this issue is taking so long to resolve. The delay has resulted in some public sector accounts not attaining the high standards of financial reporting by government that the board has a duty to promote.

¹ Directors' Remuneration Report Regulations (SI (2002) 1986) is available from the Stationery Office or can be located on the web at: www.legislation.hmso.gov.uk