HM Treasury

Financial Reporting Advisory Board

Accounting for Social Benefits

Issue:	Clarification of accounting treatment for social benefits as a result of the consideration of IPSASB standard IPSAS 42, Social Benefits in the context of UK public sector reporting.
Impact on guidance:	Wording to be added to the FREM for clarification only
IAS/IFRS adaptation?	No adaptations or interpretations proposed.
Impact on WGA?	No material impact.
IPSAS compliant?	The current accounting treatment for social benefits in the UK public sector is considered to be substantially compliant with IPSAS 42.
Interpretation for the public-sector context?	No adaptations or interpretations proposed.
Impact on budgetary regime and Estimates?	None.
Alignment with National Accounts	No impact on the National Accounts. Current treatment aligns.
Recommendation:	For the Board to consider the suggested wording proposed as intended to provide clarity on current accounting treatment for social benefits.
Timing:	To impact November FREM update.

DETAIL

Background

1. At the November 2021 FRAB meeting, a review of the International Public Sector Accounting Standards Board (IPSASB) standard, IPSAS 42, Social Benefits, was presented (FRAB 145 (12), covering the background to the Standard and comparing it to the existing accounting treatment for social benefits in the UK public sector.

2. It was agreed at the FRAB meeting that the existing accounting treatment for social benefits in the UK public sector should remain extant and it was also considered to be substantially compliant with IPSAS 42.

3. IPSAS 42 was reviewed in the context of IFRS 17 implementation and as a result of a review of accounting for war benefits during the audit of the Ministry of Defence. The Board agreed that the Financial Reporting Manual (FReM) should be updated to reflect the agreed treatment and this paper is being presented to the Board to review the suggested wording for inclusion in the FReM and discuss the potential implications.

Accounting for social benefits in the UK public sector

4. HM Treasury engaged with the other Relevant Authorities and draft versions of the accounting for wording were brought to the Relevant Authorities Working Group for comments and feedback. There has also been engagement with the National Audit Office and the Department for Work and Pensions in drafting the wording. There has been some debate about ensuring the wording works as intended in practice and at this point, we would value FRAB's consideration as full agreement has not been reached.

5. The current treatment for recognising a liability in relation to social benefits is to recognise an accrual for benefit payments due relating to the period <u>before</u> the year end. Under UK-adopted IFRS, social benefits are recognised in the year in which the recipient is eligible for the benefit, with an accrual raised for any amounts not yet paid at the year end. This is on the basis that fulfilling the eligibility criteria is a past event that creates a present obligation to individuals and/or households.

6. In 2001-02, FRAB accepted the view that **benefits should be accounted for in the year in which amounts to be paid fall due following proper approval of a claim.** It was agreed that it would be inappropriate to recognise any longer-term liability for such expenditure.

7. The key concerns have centred around:

    - Providing clarity on the definitions used, e.g. what is a "social benefit";
    - Providing clarity on the trigger for what would be the trigger point for recognising a liability;
    - Consistency over recognition of expenditure in the appropriate period; and
    - Interaction of social benefit treatment with other standards, e.g. IAS 37.

8. The following wording is suggested for inclusion in the FReM:

    Expenditure in respect of social benefit payments should be recognised in financial statements as closely as possible to the time of the underlying activity that gives rise to a liability. The underlying activity is defined as the point at which the claimant is deemed to be eligible to receive the social benefit, per the underlying legislation. Only the expenditure for the period of entitlement that falls within the accounting year should be recognised.

    Social benefits may be defined as current transfers received by households intended to provide for the needs that arise from certain events or circumstances, for example, sickness, unemployment, retirement, housing, education, or family circumstances.

9. "*Social benefits*" have been defined using OECD statistical definitions.

10. The term "*Current transfers*" is defined by the OECD as "*… all transfers that are not transfer of capital. Current Transfers are classified into two main categories: general government [and] other sectors*".

11. The term "*Household*" is also a statistical term and, per the OECD, refers to "*… either (a) a one-person household, that is to say, a person who makes provision for his or her own food or other*

essentials for living without combining with any other person to form part of a multi-person household or (b) a multi-person household, that is to say, a group of two or more persons living together who make common provision for food or other essentials for living. The persons in the group may pool their incomes and may, to a greater or lesser extent, have a common budget; they may be related or unrelated persons or constitute a combination of persons both related and unrelated. A household may be located in a housing unit or in a set of collective living quarters such as a boarding house, a hotel or a camp, or may comprise the administrative personnel in an institution. The household may also be homeless."

12. The OECD definition is based on the definition of social benefits in SNA08, which is the UN's statistical framework for national accounts upon which ESA10 is based. ESA10 is broadly consistent with SNA08 but contains more detail on a number of subjects.

13. The ESA10 definition of social benefits is as follows:

    Social benefits are transfers to households, in cash or in kind, intended to relieve them from the financial burden of a number of risks or needs, made through collectively organised schemes, or outside such schemes by government units and NPISHs[1]*; they include payments from general government to producers which individually benefit households and which are made in the context of social risks or needs.*

14. IPSAS 42 sets out the following definitions in relation to accounting for social benefits:

    5. Social benefits are cash transfers provided to:

    (a) Specific individuals and/or households who meet eligibility criteria;

    (b) Mitigate the effect of social risks; and

    (c) Address the needs of society as a whole.

    AG9. Social risks relate to the characteristics of individuals and/or households–for example, age, health, poverty, and employment status. The nature of a social risk is that it relates directly to the characteristics of an individual and/or household. The condition, event, or circumstance that leads to or contributes to an unplanned or undesired event arises from the characteristics of the individuals and/or households. This distinguishes social risks from other risks, where the condition, event, or circumstance that leads to or contributes to an unplanned or undesired event arises from something other than the characteristics of an individual or household

15. This is in line with the definitions set out above in relation to accounting for social benefits in the UK public sector.

16. The assessment of an individual being eligible should generally be considered the underlying activity that gives rise to a liability as, for most social benefit schemes, there is no expectation that the benefit will be paid unless it is claimed.

[1] Non-profit institutions serving households (NPISHs) consist of NPIs which are not predominantly financed and controlled by government and which provide goods or services to households free or at prices that are not economically significant., https://stats.oecd.org/glossary/detail.asp?ID=1827

Question: Does FRAB agree to approve the suggested wording in relation to accounting for social benefits for inclusion in the FREM?

Discussion points raised with the current proposal:

The wording seeks to capture that a liability should be recognised post-claim and post-successful assessment of eligibility. In the case of a new claim, payment date may be a proxy date for successfully meeting the eligibility criteria, or "assessed" as being a successful claim.

Northern Ireland Department for Communities (DfC) has suggested that the wording needs to reflect that, where the eligible period of entitlement is before the financial year end, DfC accrue the benefit amount up to 31 March on the basis that they recognise the liability for the expenditure that falls within the accounting year. This is the case regardless of whether these are new or ongoing claims.

The DWP audit team consider that there should not be any recognition point until the benefits claim has been approved. The payment is akin to the claim approval in terms of timing, and they are satisfied with DWP's approach to accounting for these social benefits at present. There is therefore a challenge in finalising the proposed wording and judging whether this is broad enough to accommodate both approaches, whether practice needs to be brought into alignment, or whether a small mismatch in policy at the relevant authority level could be tolerated if the approaches are materially consistent at the WGA level.

Some concerns have also been raised about the wording in relation to the "*underlying activity"* and how this may interact with social benefit schemes that do not require recipients to submit a claim.

A further question of consistency with IAS 37 guidance was raised; specifically, whether there is a clear enough distinction between accounting for social benefits and accounting for other types of payments e.g., farming subsidies.