HM Treasury

Financial Reporting Advisory Board Paper

Accounting for social benefits guidance

Issue:	Approval of the application guidance for the clarifications to the accounting treatment for Social Benefits as agreed at FRAB 149.
Impact on guidance:	Wording to be added to the FReM to clarify accounting treatment of social benefits and application guidance to be issued.
IAS/IFRS adaptation?	No adaptations or interpretations proposed.
Impact on WGA?	Changes in accounting for social benefits at the individual department level will flow through into WGA consolidation.
IPSAS compliant?	The accounting treatment agreed for social benefits proposed in this paper 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?	Impact on timing of budget cover when applying guidance for first time.
Alignment with National Accounts	The proposal is broadly aligned with the national accounts principle that social benefits in cash should be recorded when the claims on the benefits are established (ESA 2010 4.106, SNA 2008 3.171).
Recommendation:	For the Board to approve the application guidance for social benefits accounting.
Timing:	To impact 25/26 FReM update

Summary of Issue

1. The issuance of the new International Public Sector Accounting Standards Board (IPSASB) standard, IPSAS 42, Social Benefits, prompted HMT to review the current accounting treatment for social benefits int he UK public sector.
2. FRAB had previously discussed the accounting treatment for social benefits, agreeing to wait until the publication of the IPSASB standard before making a decision. At FRAB 142 in November 2021, HM Treasury was asked by FRAB to clarify the current accounting treatment for social benefits and to draft wording for inclusion int he Financial Reporting Manual (FReM).
3. The following wording for inclusion in the FReM was proposed and agreed by the Board at FRAB 149 in June 2023:

Expenditure in respect of social benefit payments should be recognised at the point at which the social benefit claimant meets the eligibility requirements to receive the benefit. Only the *expenditure for the period of entitlement that falls within the accounting year should be recognised.*

4. This text will be added to the FReM for application from 1st April 2025.

Application Guidance

5. HM Treasury has prepared application guidance for publication alongside the update to the FReM. This guidance is attached at **Annex 1.**
6. HM Treasury has consulted with relevant stakeholders – including DWP, MoD, HMRC, Relevant Authorities, and the ONS on the change and in drafting the guidance.
7. The ONS agree that the proposed accounting treatment is broadly aligned with the national accounts principle that social benefits in cash should be recorded when the claims on the benefits are established (ESA 2010 4.106, SNA 2008 3.171). However, the ONS understand 'established' to require confirmation that a benefit is to be paid. Following this confirmation, the expenditure should be recorded beginning from the earliest point at which eligibility exists.
8. ONS and HM Treasury teams working on our statistics will discuss how the implementation of this change may affect the data they supply, however, they have confirmed that they do not foresee a material impact on statistics from the adoption of the new accounting treatment.
9. DWP have noted some concerns about the application of the guidance, including the need to use estimation and judgement in the calculation of the accrual. However, HM Treasury consider this to be the case in the calculation of any accrual, and therefore do not think this should lead to any change in the accounting treatment as agreed by FRAB.
10. DWP highlighted that their social benefits payments are only made if claims are submitted. HM Treasury believes this is consistent with the text for the FReM agreed by FRAB, which does not refer to eligible *individuals*, but rather to eligible *claimants*, thereby recognising that a liability should only be accrued in cases where eligible individuals have/are expected to make a claim.
11. There has also been discussion about the point at which the claimant is considered to meet the eligibility requirements; DWP's view is that the act of making a claim is part of the obligating event. This is based on benefits rules which stipulate that in most cases, benefits payments are calculated from the point of a claim being made and not backdated further.
12. HM Treasury agrees that in cases where no payment will be made relating to any period that predates the claim being submitted, i.e. *the claim is intrinsic to eligibility*, the liability will accrue from the date of the claim even if all other eligibility requirements have been met at an earlier date. We note there may be some specific cases where benefit payments are backdated to a date earlier than the submission of the claim. In such cases, the liability will be calculated based on that earlier date. HM Treasury consider that this treatment is consistent with the agreed FReM text.
13. The examples included in the application guidance support the application of the accounting treatment as set out above.
14. **Recommendation**: HMT recommend that FRAB review and approve the publication of the Accounting for Social Benefits application guidance to support the agreed addition to Chapter 11 of the FReM.

FRAB 152 (05)
21st March 2024

Annex 1

Accounting for Social Benefits

Application Guidance

Definition of social benefits

The term "social benefits" as used in the FReM is defined by the OECD as follows:

> *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*[1][2]

The OECD definition is, in turn, based on the definition of social benefits in SNA08, the UN's statistical framework for national accounts upon which ESA10[2] is based.

In line with IPSAS 42, "Current transfers" are considered cash transfers that may be used indistinguishably from income coming from other sources, i.e. the individual and/or household has discretion over the use of the benefit.[3]

The term "Household" is 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".*

Payments made by the government that are not directly related to relieving households from the financial burden of specific social risks or needs are outside the scope of this guidance, for example subsidies and grants aimed at promoting economic development.

Payments made to address current concerns, such as covid-related grants, that do not meet the social benefits definition, are categorised as grants and normal IFRS principles apply. IAS 37 and grantor accounting guidance have been issued by HMT to assist with grantor accounting.

Accounting treatment

The IFRS definition of a liability is *a present obligation of the entity to transfer an economic resource as a result of past events.* In assessing whether a present obligation (and therefore a liability) exists, para 4.43 of the Conceptual Framework states the following:

> *A present obligation exists as a result of past events only if:*
> *a) the entity has already obtained economic benefits or taken an action; and*
> *b) as a consequence, the entity will or may have to transfer an economic resource that it would not otherwise have had to transfer.*[4]

The trigger point for recognising a liability related to social benefits will now be defined in the FReM as the point at which a claimant becomes eligible to receive the benefit. If the conditions for eligibility are met prior to year-end, this is the underlying obligating event.
The submission of a claim (whether before or after year end) is the evidence process required by legislation. Until a claim is made there may not be a legal obligation to make a payment, but if a claimant has satisfied all of the eligibility criteria to receive a benefit payment the 'past event' requirement has been met, and a liability will be recognised from the date that will be used as the starting point for the calculation of the benefit.

[1] https://data.oecd.org/socialexp/social-benefits-to-households.htm
[2] https://ec.europa.eu/eurostat/documents/3859598/5925693/KS-02-13-269-EN.PDF/44cd9d01-bc64-40e5-bd40-d17df0c69334
[3] https://www.ipsasb.org/publications/ipsas-42-social-benefits-1
[4] https://www.ifrs.org/content/dam/ifrs/publications/pdf-standards/english/2021/issued/part-a/conceptual-framework-for-financial-reporting.pdf

In cases where no payment will be made for any period that predates the submission of a claim, and the claim itself is therefore considered intrinsic to eligibility, the liability will be calculated based on the date of the claim.

Payments due to eligible individuals for claims that have been received but not processed at year-end, as well as claims expected to be received that satisfied the eligibility requirements prior to year-end, will be treated on an accruals basis in accordance with IAS 1 and IAS 10 principles and para 4.43 of the Conceptual Framework, above. Claims (received or expected) which did not satisfy the conditions for entitlement prior to year-end should not be accrued for.

Under IPSAS 42, the liability is measured at the present value of the expected next social benefit payment to be made.[5] In comparison, only the expenditure pertaining to the period of entitlement falling within the financial year is recognized as a liability under the accounting treatment outlined here. Otherwise, this accounting treatment is broadly in line with IPSAS 42.

Transition arrangements

This guidance will apply for the first time in 2025-26. This timeframe will allow departments to prepare data in advance of restating prior year balances (2024-25).

The transition to the accounting treatment set out in this guidance constitutes a change in accounting policy, and entities will need to apply the requirements of IAS 8. Financial statements for prior periods will therefore be adjusted as if the new policy had always been applied, unless impracticable.

To apply this accounting treatment retrospectively, at the transition date (1 April 2025) entities need to:

- Identify each category or group of social benefits and recognise and measure them as if the new accounting standard had always applied;
- Derecognise any existing balances that would not exist if this accounting treatment had always applied.

[5] Measurement of a Liability for a Social Benefit Scheme AG15. In accordance with paragraph 12 of this Standard, an entity shall measure the liability for a social benefit scheme at the best estimate of the costs (i.e., the social benefit payments) that the entity expects to make in fulfilling the present obligation represented by the liability. Satisfaction of the eligibility criteria for each social benefit payment is a separate past event, and the liability for each payment is measured separately. The maximum amount to be recognized as a liability is the costs the entity expects to incur in making the next social benefit payment. This is because social benefit payments beyond this point are future events for which there is no present obligation. AG16. In measuring the liability, an entity takes into account the possibility that beneficiaries may cease to be eligible for the social benefit prior to the next point at which eligibility criteria for the next payment are required (implicitly or explicitly) to be satisfied. Examples include: IPSAS 42—SOCIAL BENEFITS 14 (a) The death of the beneficiary (where no survivor benefits are payable); (b) Commencing employment (in the case of an unemployment benefit); and (c) Exceeding the maximum period for which a social benefit is provided (where an unemployment benefit is provided for a limited period). The extent to which such events affect the measurement of the liability will depend on the terms of the scheme. For example, an unemployment benefit is payable on the 15th of each month, and the reporting date is December 31. If the payment to be made on January 15 relates to unemployment up to December 15, then at the time the eligibility criteria for the next social benefit payment are met, the amount due will be known and is recognized at the reporting date. No adjustment for beneficiaries subsequently ceasing to be eligible is required. However, if the payment on January 15 relates to unemployment between December 16 and January 15, measurement of the liability to be recognized at the reporting date is based on an estimate of the extent to which eligibility criteria for a payment have been satisfied. AG17. Because a liability cannot extend beyond the point at which eligibility criteria for the next payment will be next satisfied, liabilities in respect of social benefits will usually be short-term liabilities. Consequently, prior to the financial statements being authorized for issue, an entity may receive information regarding the eligibility of beneficiaries to receive the social benefit. IPSAS 14, Events After the Reporting Date, provides guidance on using this information.

Budgetary impact

There will be a budgetary impact of this change for departments that do not currently account for social benefits in this way. However, as per Consolidated Budgeting Guidance (CBG) principles, this will be treated as a budgetary adjustment because of an accounting policy change. Budgets will be restated to reflect the change in accounting guidance and departments will not be any better or worse off from a budgeting perspective.

Where this change necessitates a prior period adjustment, again normal CBG principles should be followed. There is no need to seek parliamentary authority for the adjusted spending in prior years, but the change and its impact should be identified in 'Note F Accounting Policy changes' in Main Estimates 2025-26.

Annex 1

Examples

A. A person becomes eligible to claim PIP (Personal Independence Payment) on 1 September 20XX. They make a claim for PIP on 25 March 20XY. The decision to pay PIP is not made until 25th April 20XY. The benefit entitlement will be calculated from the date the claim was submitted, in this case 25 March 20XY. No payment will be made for the period prior to 25 March 20XY. DWP should accrue for the entitlement period 25th March to 31st March 20XY in the XX/XY accounts.

B. A person satisfies all eligibility requirements to receive UC on 1 February 20XY, other than submitting a claim. They submit the claim on 1 April 20XY. The claim is approved by DWP on 10 April 20XY and will be backdated to the date of the claim. No accrual will be included in the accounts for 20XX/XY because in this case the claim is considered intrinsic to eligibility, and no benefit will be paid for any period prior to the claim having been submitted. The claimant's entitlement began from the 1 April.

C. A person becomes eligible to claim ESA (Employment and Support Allowance) on 1 December 20XX, and they make a claim on 10 December 20XX. Due to a backlog of claims the claim is not approved until 30 April 20XY. The claimant's benefit payment will be backdated to the date of the claim. In the 20XX/XY accounts, DWP should accrue for the entitlement for the period between 10 December 20XX and 31 March 20XY.

D. A person has been made redundant and will be out of work from 15 April 20XY. The individual makes a claim for JSA (Job Seeker's Allowance) on 25 March 20XY in advance of their redundancy. Although a claim has been made DWP should not accrue for this payment because entitlement does not begin until 15 April 20XY.

E. An individual becomes eligible to claim a benefit on 21 June 20XX. They do not submit a claim for the benefit until 21 June 20XZ. The legislation for this benefit allows for payments to be backdated for three months from the date of submission of the claim. The entity paying the benefit should accrue for nine days of the entitlement in the 20XY/20XZ accounts. Estimates should be made for all similar cases.