# 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 be nothing yet due for payment, but if a claimant has satisfied all of the eligibility criteria to receive a benefit payment then there is no discretion to avoid

[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

payment and, thus, 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.

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 the amount to which the claimant is eligible, 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;

[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.

- Derecognise any existing balances that would not exist if this accounting treatment had always applied.

**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 for year-end 20XX/XY

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 the amount to which the claimant is eligible, 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. A person becomes eligible to claim War Pension from Injuries relating to a period of Service prior to 5th April 2005 on 1 November 20XX. They make a claim for War Pension on 1 December 20XX. The decision to pay War Pension is not made until 1st July 20XY. The benefit entitlement will be calculated from the date the claim was submitted, in this case 1st December 20XX. No payment will be made for the period prior to 1st December 20XX. The entity should accrue for the entitlement period 1st December 20XX to 31st March 20XY in the 20XX/20XY accounts.

F. An individual becomes eligible to claim a benefit on 21 June 20XW. They do not submit a claim for the benefit until 21 June 20XX. 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 11 days of the entitlement in the 20XX/20XY accounts. Estimates should be made for all similar cases.