

# Financial Reporting Advisory Board

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Secretary:  
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## From the Chairman

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Technical Director  
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30 June 2008

Dear Sir,

### **Consultation Papers on Social Benefits:**

- A. Exposure Draft 34 Social Benefits: Disclosure of Cash Transfers to Individuals or Households;
- B. Consultation Paper: Social Benefits: Issues in Recognition and Measurement;
- C. Project Brief: Long-term Fiscal Sustainability Reporting.

1. The Financial Reporting Advisory Board (the Board) welcomes the opportunity to comment on the proposals set out in the International Public Sector Accounting Standards Board's Consultation Papers on Social Benefits. The Board views social benefits as a very significant issue for financial reporting in the public sector.

### Background to the Board

2. The Board 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. More details on the work of the Board can be found on its website at [www.frab.gov.uk](http://www.frab.gov.uk).

The Board's response

3. The Board supports the proposed project on long-term fiscal sustainability, as outlined in the Project Brief, and agrees that serious consideration needs to be given as to whether this type of reporting can in the future complement the information provided in general purpose financial statements.
4. The Board agrees with the IPSASB's overall direction in seeking to determine appropriate recognition, measurement and disclosure requirements to progress the future reporting of social benefits.
5. I attach at Annexes A and B respectively, the Board's response to the specific matters for comment as raised in the ED and the Consultation Paper. I hope you find these comments useful.

Yours faithfully,

*Larry Pinkney*

p.p. ELWYN EILLEDGE

Approved by the Board and signed in the Chairman's absence.

**Annex A****Exposure Draft 34 Social Benefits: Disclosure of Cash Transfers to Individuals or Households****Specific Matters for Comment:**

**1. The scope of this ED is appropriate (paragraphs 2-8). If you do not think that the scope is appropriate please detail how you would modify the scope. Please state your reasons.**

The Board considers that the scope of the ED is appropriate.

**2. The new definitions in this ED at paragraph 10 are sufficiently clear and comprehensive. If you disagree, please indicate (a) how these definitions should be modified and (b) which new terms should be defined. Please state your reasons.**

The Board agrees that the new definitions in this ED are sufficiently clear and comprehensive.

**3. The requirements for the determination of amounts expected to be transferred to eligible individuals or households are appropriate (paragraphs 30-44). If you do not think that they are appropriate please indicate what those requirements should be. Please state your reasons.**

The Board considers the requirements for the determination of amounts expected to be transferred to individuals or households to be appropriate. However, the Board notes that agreement has not yet been reached on the measurement issues in the accompanying Consultation Paper on Recognition and Measurement, and is in advance of the conceptual framework project work that will consider what is a government liability.

**4. The disclosure requirements in paragraph 45 are appropriate. If you think that they are unduly onerous, which disclosures should not be required? Conversely, if you think that the disclosures are inadequate, what further disclosures would you include? Please state your reasons.**

The Board considers the proposed disclosure requirements to be appropriate.

**5. The disclosure requirements in paragraph 45 are going to provide information that is verifiable. If you think that the disclosure requirements are not going to provide information that is verifiable, please identify the specific disclosures and state what those implications are.**

The Board views that the proposed disclosure requirements to be generally verifiable, but there may be consistency issues for auditors given the considerable scope for entities in reporting the information.

**6. The implementation arrangements are appropriate (paragraphs 50-53). If the implementation arrangements are inappropriate, please specify how you would change them. Please state your reasons.**

The Board agrees that it is reasonable to expect implementation two years after the Standard is issued, and supports the proposal that comparative information would not be required in the first year of adoption.

**Annex B****Consultation Paper Social benefits: Issues in Recognition and Measurement****Specific Matters for Comment:**

**1. Do you agree that, within the constraints of the current implied conceptual framework for general purpose financial reporting, current financial statements such as the statement of financial position and the statement of financial performance cannot convey sufficient information by themselves to users about the financial condition of governmental programs providing social benefits? Please state your reasons.**

The Board agrees that within the constraints of the current implied conceptual framework for general purpose financial reporting, current financial statements cannot convey sufficient information by themselves to users about the financial condition of government programs providing social benefits. This is because whilst liabilities are measured by reference to settlement amounts, they are focused on past events.

**2. Do you think that a present obligation to individuals or households arises at any time for:**

- a) Collective goods and services; and/or**
- b) Individual goods and services?**

**If you think a present obligation does arise from either (a) or (b) or both (a) and (b) please indicate when and indicate your reasons.**

2(a). The Board does not consider that a present obligation to individuals or households arises at any time for collective goods and services as a general policy statement that an entity intends to provide goods and services to potential beneficiaries in accordance with its objectives, will not necessarily give rise to a liability. The entity could withdraw or amend the terms on which the goods and services will be provided, and the potential beneficiaries do not have the ability to insist on receipt.

2(b). The Board views that it is less clear-cut whether a present obligation to individuals or households arises at any time for the provision of individual goods or services. In general terms, similar to the provision of collective goods and services, there is no present obligation for individual goods and services in respect of a general policy commitment made by an entity to provide them. However, that does not rule out the possibility of a legal or constructive obligation arising as a result of an individual citizen's actions or expectations based on past events.

**3. Do you think that a present obligation to individuals or households in respect of cash transfers arises when all eligibility criteria have been satisfied for:**

- a) Non-contributory programs; and/or**
- b) Contributory programs?**

**If you think that a present obligation arises at an earlier point for (a) or (b) or both (a) and (b), please indicate that point and give your reasons.**

The Board views that an obligating event does not occur for non-contributory or contributory programs before the relevant threshold eligibility criteria are met, e.g. there is no obligating event for the payment of an old age pension until all eligibility criteria have been met, including the survival of the beneficiary to the required age for the pension to be paid.

**4. Where a cash transfer program requires individuals or households to revalidate their entitlement to benefits, do you think that revalidation is an attribute that should be taken into account in the measurement of the liability or a recognition criterion? Please state your reasons.**

The Board considers that the revalidation of entitlement to benefits to be a recognition criterion, as a present obligation cannot exceed the maximum amount that an individual is entitled to receive from one revalidation point to another. The revalidation is further viewed as an implicit eligibility criterion in that the continued survival of a beneficiary is necessary for the continued entitlement of cash transfers, e.g. the continuation of a pension may be subject to the satisfactory completion of a life certificate to ensure cash transfers continue until the next revalidation point.

**5. Do you think that in developing requirements for recognition and measurement of social benefits that IPSASB should further explore the executory contract accounting model briefly outlined in Key Issue 6. Please state your reasons**

The Board believes that further exploration of the executory accounting model could be potentially fruitful in that it may provide more useful information about social benefit programs and be subject to less ambiguity than the assets and liabilities approach.