



HM TREASURY

Financial Reporting Advisory Board Paper

EXPOSURE DRAFT ON THE STATEMENT OF PRINCIPLES FOR PUBLIC BENEFIT ENTITIES – VOLUNTARY GIFTS

Issue:	Consideration of the proposals in the Exposure Draft on the <i>Statement of Principles for Public Benefit Entities</i> regarding the accounting treatment of Voluntary Gifts .
Impact on guidance:	None for the time being – see paragraph 19 of the paper.
UK GAAP adaptation?	Yes: the paper argues that the proposals in respect of voluntary goods are inconsistent with the FrEM's requirements regarding donated assets, and there are reservations regarding the proposals to recognise the value of services provided voluntarily.
IAS/IFRS compliant?	N/A
IPSAS compliant?	No – see paragraph 18.
Recommendation:	The FRAB is invited to consider the points made in the paper and to comment on the arguments for disagreeing with the proposals in the ED.
Timing:	The proposals will affect the financial year 2006-07.

DETAIL

Background

1. The ASB issued an exposure draft on the *Statement of Principles for Public Benefit Entities* in July 2005. Its proposals in respect of voluntary gifts are contained in paragraphs 4.57 to 4.61, with a further explanation in the Introduction, paragraphs 48 to 53.

Goods received voluntarily

2. In the case of a voluntary gift involving the receipt of **goods** the ED proposes (to paraphrase) that the transaction should be recorded at the current value to the recipient (assuming this can be determined with sufficient reliability).

Services received voluntarily

3. Other voluntary gifts involve the receipt of **services** that are consumed immediately, (ie volunteers' time, or reduced or free charges for professional services) which have an economic effect on the reporting entity.

4. The ED draws a distinction between services which, had they not been provided voluntarily, would nevertheless have had to be purchased, and those that would not. In the former case, the service should be recognised at the estimated value to the recipient – assuming it can be reliably measured.

5. Transactions falling into the latter category should not be recognised in the financial statements, except by way of note if it is considered necessary to do so in order to gain a better understanding of the activities.

6. Where voluntary services are recognised in financial statements, it would normally be as income with expenditure of an equal amount.

Responses from commentators

7. Departments, agencies, trading funds and NDPBs were asked to comment on the proposals in the ED. There were few responses (see Annex A); in the main, they were supportive, but raised a number of practical points. It is not very clear to what extent a department would, in practice, receive voluntary services, although DfID noted that it sometimes uses voluntary rescue workers. Points raised by commentators were:

- The position of charities should be clarified. Paragraphs 133 – 135 of the *SORP Accounting and Reporting by Charities* consider the treatment of donated services and facilities. Although the SORP is consistent with the ED in that the estimated value to the charity of donated services and facilities should be included in the Statement of Financial Activities, it specifically (para 134) excludes the value of the contribution of volunteers, as the value of their contribution to the charity cannot be reasonably quantified in financial terms. To this extent, there is a difference in emphasis between the ED and the Charities SORP.
- It might not always be clear whether an entity would necessarily purchase the same level of service if it were not provided voluntarily. For example, although there may be (say) 10 volunteers for a particular service, the body would need to consider whether it could afford to pay for this level of service, or whether it would need to cut back in some way.
- A feeling that the recognition of the value of voluntary services was an over-complication, and information given by way of note would be a more straightforward approach.
- General support for notional income (but see paragraph 11 below).

Implications for Fees and Charges policy

8. Fees and charges policy requires the recovery of the actual costs of the resources used in providing the service plus notional costs to the extent that they reflect an allocation of costs borne elsewhere by the Exchequer¹. Para 4.5.1 of the FreM also notes that entities may recognise notional costs. It is necessary to distinguish between such notional costs and voluntary services (the subject of this paper); the latter being those provided by one organisation to another, but where the financial consequences are borne by the providing organisation.

9. FRAB(76)06C considers notional transactions in general and concludes that a notional transaction is one which results in no change to a reporting entity's assets and liabilities and, consequently, there is no gain or loss to recognise in the financial statements. It is considered that notional costs which are an allocation of costs borne elsewhere within the Exchequer fall within the definition of notional transactions in the ED above and hence, in principle, should not be recognised in departmental resource accounts or accounts prepared by other entities covered by the FreM. FRAB(76)06C considers further the implications for fees and charges policy and the general need for resource and other accounts to show the full cost of their operations.

10. The fees and charges policy team in the Treasury does not support the recognition of the value of services provided voluntarily when setting fees, as this could be construed as hidden taxation. The provider of the service has chosen to bear the costs, and it would not be appropriate to charge customers for the value of such services. There is no support for the suggestion in the ED that the value of services provided voluntarily should be recognised in the OCS (or income and expenditure account).

11. In addition, fees and charges policy does not recognise the concept of ***notional income***, and there are reservations about these proposals in the ED.

Budgeting implications

12. Although the inclusion of notional costs and income could be accommodated in the budgeting regime, there was a feeling that the proposals in the ED were over-complicated and support for them was lukewarm.

Recording Implications

13. If the public sector recorded transactions that were not balanced by transactions in other sectors of the economy the national accounts would not add up. We would expect gifts of goods to appear – at least notionally – in the accounts of other sectors. However, gifts of labour would presumably not appear in the accounts of the household sector and it is not clear whether or how they would appear in the corporate sector. The need to balance sector accounts might lead to complex recording burdens on departments if we were to ask them to include gifts of labour services in accounts.

¹ For example, departments and agencies are not charged by NAO for audit services, but in determining the fee for a service, they should recognise a notional audit fee as the cost of NAO is borne by the Exchequer. Other notional costs might include inter-departmental costs provided free of charge. Cost of capital is the subject of separate consideration.

Proposals

Voluntary goods

14. In that the proposals regarding voluntary goods require the capitalisation of the current value of the goods, they are similar to the guidance in the FreM regarding donated assets (FreM 5.2.12). However, the FreM requires the use of a donated asset reserve to record the credit side of the transaction, whereas the ED proposes that there should be a credit to income. To ensure consistency in the treatment of donated assets and voluntary goods, this paper proposes a departure from the recommendations of the ED, to allow a credit to a donated asset reserve rather than a credit to income.

Voluntary services

15. Although comments from departments were generally supportive, the problems of reconciling the proposals in the ED in respect of recognising a value for services provided voluntarily with fees and charges policy and potential issues with resource budgeting, this paper proposes a departure from the recommendations in the ED, ie that there should be no recognition of services provided voluntarily. Were an entity to receive significant services on a voluntary basis, we would support the disclosure of such services by way of note.

16. The FRAB is invited to comment on these conclusions. For the time being, no changes to the FreM are proposed.

UK GAAP compliance

17. The proposals above represent a departure from the recommendations in the ED, and hence would not be GAAP compliant.

IAS/IFRS compliance

18. Not applicable.

IPSAS compliance

19. The ED notes that its proposals are not consistent with the proposals in the IPSAS invitation to comment *Revenue from non-exchange transactions (including taxes and transfers)*, which are that voluntary services should not be recognised. However, it notes that IPSAS may be revisiting this conclusion so that its proposals and those in the ED would be consistent.

Proposed amendment to the FreM

20. Pending comments from the FRAB, no amendments to the FreM are proposed.

Impact of amendment on Department Yellow

21. No amendments to Department Yellow are proposed.

Summary and recommendation

22. This paper summarises the proposals in the ED *Statement of Principles for Public Benefit Entities* in respect of **voluntary gifts (goods and services)**.

23. The paper argues that the proposals in the ED regarding the recognition of goods supplied voluntarily are inconsistent with the current requirements in the FrEM relating to donated goods. It therefore suggests that, while entities should capitalise the value of goods given voluntarily, they should credit a donated asset reserve rather than, as in the ED, credit income.

24. Because of problems in reconciling the proposals regarding the suggestions in respect of voluntary services with those of the fees and charges policy, the paper concludes that departments and other bodies to which the FrEM applies should not recognise the value of services provided voluntarily (and hence not also recognise notional income). Information on voluntary services should be given by way of note if such services are considered to be material.

25. The FRAB is invited to comment on this conclusion.

CA TEAM

28 November 2005

ANNEX A

SUMMARY OF RESPONSES TO PROPOSALS re VOLUNTARY SERVICES

	FROM	COMMENT
01	Dept for Constitutional Affairs	No comments on proposals [assume this means that DCA supports the approach in the ED.]
02	Dept for Culture, Media and Sports	ED should refer to the Charities SORP as the emphasis on voluntary services is different. Charities SORP also addresses the treatment of gifts in kind.
03	Dept for International Development	General agreement with proposals. Note that DfID sometimes relies on volunteer relief workers
04	Dept for Work and Pensions	Support for proposals, including recognition of notional income. Does not foresee any practical difficulties.
05	Dept of Health	Initially (based on draft RABIG letter), support for proposals. Subsequent response, based on revised RABIG letter) thought emphasis should be whether a dept could forego the service – no suggestion that dept could not have an audit. Now no support for notional income.
06	Fees and Charges policy team in HMT	Problems with the concept of including the estimated value of voluntary services as this could be construed as hidden taxation (recovering more than actual costs plus notional costs. For fees and charges purposes, notional costs are those which represent an apportionment of costs borne elsewhere within the Exchequer. For this reason, fees and charges policy has difficulties with notional income as it does not represent an element of income received elsewhere within the Exchequer. So long as there is no suggestion of trying to recover the value of voluntary services, happy for disclosure by way of note.
07	Kew Gardens (Charitable NDPB)	General agreement with proposals. Note that Charities SORP requires recognition of notional income. Some practical issues such as whether an organisation would purchase a service if not provided voluntarily.
08	MOD	Support for proposals re voluntary goods. No support for proposals re voluntary services – should be by way of note. Compares proposals with those in ED in respect of notional transactions.
09	NAO	Support for proposals, including recognition of notional income. Sees distinction between proposals for voluntary services and notional transactions. Some practical issues such as whether an organisation would purchase the same level of service if not provided by volunteer labour.

10	Resource budgeting team in HMT	Concept of inclusion of the value of voluntary services and notional income could be accommodated within budgetary framework, but seen as a complication. Only lukewarm support.
11	Tate Gallery (charitable NDPB)	Would prefer not to recognise voluntary services in view of practical difficulties. If such costs were included, sees logic of including notional income.
12	UK Hydrographic Office (trading fund)	Problems with treatment of notional items. Considers that disclosure by way of note would be just as effective. Sees logic of including notional income.