New South Wales
TREASURY

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Your Reference: Social Benefits

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Dear Ms Fox

Comments on IPSASB Social Benefits Proposals

New South Wales Treasury welcomes the opportunity to provide comments on the International Public Sector Accounting Standards Board (IPSASB) Social Benefits proposals contained in:

- Exposure Draft 34 (ED 34) *Social Benefits: Disclosure of Cash Transfers to Individuals or Households*
- Consultation Paper *Social Benefits: Issues in Recognition and Measurement* and
- Project Brief *Long-Term Fiscal Sustainability Reporting.*

Detailed comments on the proposals follow. These comments have also been provided to the Australian Accounting Standards Board for assisting with the preparation of its own submission on social benefits.

Summarising our views, NSW Treasury:

- does not support ED 34 as it recommends disclosing prospective information which does not currently fall within the scope of International Public Sector Accounting Standards or Australian Accounting Standards
- does not agree with the proposal in the Consultation Paper to issue a standard on the recognition and measurement of social benefits based on an accounting concept other than "due and payable" and
- supports a project on long-term fiscal sustainability reporting and considers it appropriate for IPSASB to be responsible for its development.

If you have any queries regarding our submission, please contact me at robert.williams@treasury.nsw.gov.au or Barbara Richardson at barbara.richardson@treasury.nsw.gov.au.

Yours sincerely

Robert Williams

Robert Williams
for Secretary

IPSASB Exposure Draft ED 34 *Social Benefits: Disclosure of Cash Transfers to Individuals or Households*

General Comments

NSW Treasury agrees with IPSASB that financial statements do not meet all the information needs of government report users on the topic of social benefits. However, it is not the objective of general purpose financial reports to meet all information needs.

NSW Treasury does not support IPSASB ED 34 as it recommends disclosing prospective information which does not currently fall within the scope of Accounting Standards. The general purpose financial report is an ex-post financial report that generally reports on past events.

Although we understand that the IPSASB draft Conceptual Framework will propose extending the scope of Accounting Standards, NSW Treasury does not support this and it has not yet been approved. Therefore, we feel that the recommendations in the Exposure Draft are premature and if this information is disclosed at all, it should be disclosed outside the audited financial statements in the body of the annual report (similar to management discussion and analysis).

The Exposure Draft also pre-empts the recognition and measurement project. By disclosing this information, there is a connotation that it has relevance to assessing performance in the current financial reporting period. NSW Treasury does not agree that the amounts disclosed as defined meet the recognition criteria for a liability and, until this is resolved, believes that it is premature to require disclosures.

NSW Treasury therefore believes that this issue is more appropriately addressed outside the general purpose financial report, as part of wider issues such as triple bottom line and sustainability reporting in conjunction with other IASB projects, including management commentary, and the IPSASB long-term fiscal sustainability project.

Further, in this context, we believe that the scope of the project needs to be expanded to include the right to tax and not just one type of social benefit. The usefulness of the information on social benefits is diminished by the fact that the proposed disclosure does not mandate reporting on government receipts used to fund those benefits – notably taxes.

While NSW Treasury does not support ED 34, it has provided some comments on specific matters raised which may be of assistance, as follows:

Specific Matters for Comment on the Exposure Draft

1. Whether the scope of the ED is appropriate. If not, detail how scope should be modified.

As discussed above, NSW Treasury only supports a project on long-term fiscal sustainability, where disclosures appear outside the audited financial statements.

With this proviso, NSW Treasury believes that the scope of the exposure draft should be extended to include the right to tax and not just one type of social benefit. The exclusion from the scope of social benefits provided in the form of individual and collective goods and services does not provide the full cost required from government for providing social benefits. This exclusion may lead to manipulation of disclosures by converting cash transfer programs into individual goods and services, in order to avoid or minimise disclosure.

Given that the right to tax is at the government level, NSW Treasury believes that any future social benefit disclosures should also be restricted to the whole-of-government level.

2. Whether the new definitions are sufficiently clear and comprehensive. If not, indicate how the definitions should be modified and whether any new terms should be defined.

NSW Treasury does not believe that the new definitions are sufficiently clear, for the following reasons:

- The definitions of "social benefits" and "individual goods and services" are not logical, as both refer to the other. It is perhaps too complicated to include the three categories of social benefits within the definition of "social benefits." Although considered and rejected, it might be preferable to use the GFSM 2001 meaning at paragraph 2.25:

  > "Social benefits, ... are payments in cash or in kind to protect the entire population or specific segments of it against certain social risks."

  IPSASB might also consider using the "scope-out" paragraphs in IPSAS 19 as a basis for a definition (paragraphs 7-11).

- The difference in the three categories of social benefits is not necessarily clear and may require further explanation. The distinction between collective goods and services and individual goods and services may be entrenched in statistical accounting, but it is not in Accounting Standards. Therefore, it requires clarification. For example, while a health or education system may be a collective system, there may be individual goods or services as part of that system. This is explained in the ABS Australian National Accounts: Concepts, Sources and Methods, 2000 (paragraph 14.335).

- However, the distinction relating to the three categories should not matter if the principles regarding the accounting are clear. The form of the transfers should not dictate the accounting treatment. This is because it is quite arbitrary whether social benefits are provided in the form of cash or goods or services; e.g. where cash is provided as a reimbursement for goods or services received or whether the service provider rather than the individual or household receives the cash transfer.

3. Whether the requirements for the determination of amounts expected to be transferred to eligible individuals or households are appropriate. If not, indicate what the requirements should be.

NSW Treasury believes this is prospective information, as it does not meet the recognition criteria of a liability. As such, we do not believe it should be disclosed in the audited financial report. In addition, this is arbitrary information that is potentially misleading; i.e. in terms of the assumptions ('continuous entitlement') and the limited scope of social benefits, without any comparable prospective information in terms of the tax revenues.

4. *Whether the disclosure requirements are appropriate. If considered unduly onerous, indicate which disclosures should not be required. Conversely, if the proposed disclosure requirements are inadequate, indicate what further disclosures should be included.*

As NSW Treasury does not support the Exposure Draft, it is premature to discuss the appropriateness of disclosure requirements.

5. *Whether the disclosure requirements would provide information that is verifiable. If not, identify the specific disclosures and state what the implications are.*

There is an inherent difficulty in verifying prospective information. Auditors tend to limit the scope of their work when reporting on prospective information due to inherent uncertainties regarding the achievement of the projections. However, even if verifiable, the information would be incomplete, arbitrary and misleading because only some social benefits would be disclosed and equivalent information is not reported regarding expected tax revenue.

6. *Whether the implementation arrangements are appropriate. If not, how should they be changed?*

No comment.

IPSASB Consultation Paper *Social Benefits: Issues in Recognition and Measurement*

NSW Treasury's comments are based on the approach taken to the provision of social benefits in Australia.

Australian paragraph Aus26.1 of Australian Accounting Standards Board AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* states "....a government does not have a present obligation to sacrifice future economic benefits for social welfare payments that might arise in future reporting periods. A present obligation for social welfare payments arises only when entitlement conditions are satisfied for payment during a particular payment period."

General Comments

NSW Treasury strongly disagrees with the proposal to issue a standard on the recognition and measurement of social benefits that is based on an accounting concept other than "due and payable". For social benefit payments, an obligation only arises when entitlement conditions are satisfied for payment during a particular payment period. Please refer to the previous submission of July 2004 made by the Australian Heads of Treasuries Accounting and Reporting Advisory Committee (Attachment 1).

We believe that information about the future obligations of the government to provide social benefits may be useful. However, this information should be provided outside the financial accounting framework applied to general purpose financial statements, which excludes prospective information. A long-term fiscal sustainability report would be a more appropriate method of providing the information.

Specific Matters for Comment

Question 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.

NSW Treasury agrees with this statement. Financial statements are based on past events, which can provide useful information for evaluating the financial performance/position of an entity but do not fulfil all needs of users with regards to social benefit programs. Social benefit reporting may be improved with information on the future expenditure and financing of these programs. However, this information should not be included within financial statements. Inclusion would result in inconsistencies between balance sheet items and would impair the comprehension and comparability of the financial statements. The IASB Framework (paragraph 13) acknowledges that financial statements do not provide all the information that users may need to make economic decisions since they largely portray the financial effects of past events and do not necessarily provide non-financial information. The financial statements should be read in conjunction with other financial and non-financial information, such as provided in the annual report and in Government budgets. This is equally true for social benefits information as with other aspects of the government's operations.

Question 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 for either (a) or (b) or both (a) and (b), please indicate when and indicate your reasons.

(a) Collective goods and services

NSW Treasury does not believe that a present obligation exists for the provision of collective goods and services. In Australia, the provision of collective goods and services does not create a binding obligation. A government public announcement to provide collective goods and services is an intention or commitment, and thus neither a legally binding decision, nor a constructive obligation to the government.

More specifically, governments typically commit to achieve a specific outcome (e.g. affordable housing) and not to make specific payments or to provide specific services in a specific location. A government still retains the discretion to avoid the sacrifice of future economic benefits. It can withdraw its promises if it decides that the situation requires it.

For similar reasons, NSW Treasury believes that the identification of a present obligation should be in the context of current legislation and that preparers should not prejudge possible changes in legislation.

(b) Individual goods and services

NSW Treasury believes that a present obligation can arise for individual goods and services once eligibility criteria have been satisfied for the present payment period, giving rise to a valid expectation by the citizen that the government will provide the benefit. However the obligation is not binding indefinitely, and can be altered by the government as early as the next payment period.

Question 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.

(a) Non-contributory programs

NSW Treasury supports the 'due and payable approach' for non-contributory programs; i.e. an obligation arises in relation to specific social benefit payments only when entitlement conditions are satisfied for payment during a particular payment period.

A present obligation does not arise regarding social benefit payments in future reporting periods. This may be regarded as a narrow interpretation of the 'due and payable approach', as NSW Treasury does not believe that meeting eligibility criteria at one point in time creates a present obligation that is binding in relation to all future periods. Rather, we believe the liability is limited to the next particular payment period. This is because the Government has discretion beyond that period to avoid the sacrifice of future economic benefits by modifying the social benefit arrangements.

(b) Contributory programs

Australia does not have social insurance and we are not aware of any other social benefits that currently would give rise to a liability at an earlier point.

NSW Treasury believes that the identification of a present obligation should be in the context of the current legislation and that preparers should not prejudge possible changes in legislation.

Question 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.

NSW Treasury believes that revalidation should be taken into account in determining whether or not the definition and recognition criterion are satisfied, rather than the measurement of the liability. If revalidation were incorporated in the measurement of the liability, it would result in the recognition of future liabilities.

Revalidation is more relevant to establishing whether there is a present obligation and whether an outflow of resources is probable; i.e. in the liability definition and recognition criterion, respectively.

However, this does not mean that a liability should be recognised for the period up to the next revalidation. Where there is a long period between revalidations (or validation only occurs once), circumstances could change such that the government has a realistic alternative to avoid making a future sacrifice of economic benefits. Therefore, NSW Treasury believes that an obligation only arises for non exchange transfers when entitlement conditions are satisfied for payment during a particular payment period.

Nevertheless, in many circumstances in Australia, the onus is on constituents to inform government that they are no longer eligible for benefits. This could be interpreted as requiring validation every payment period.

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

Yes. NSW Treasury agrees that social benefits are similar in concept to executory contracts, in the sense that the liability for future social benefits is offset by the government's right to tax. However, an important distinction is that executory contracts are normally reciprocal or exchange transactions while social benefits are not. Obligations under such contracts are generally not recognised as liabilities in the financial statements, as generally a rights and obligations approach is not adopted in Accounting Standards (refer IASB Framework, para 91). NSW Treasury strongly believes that wherever the right to tax cannot be recognised, the obligation to provide future social benefits should also not be recognised.

The Consultation Paper indicates that the executory contract accounting model is consistent with the US Governmental Accounting Standards Board "inter-period equity" concept. NSW Treasury agrees that "inter-period equity" is a valuable concept for government accountability of social benefits. But this should be considered as part of the long-term fiscal sustainability reporting project (outside the audited financial report) rather than the recognition and measurement of social benefits.

Additional Comments

This project should progress in conjunction with the IASB projects on liabilities and the Conceptual Framework and the IPSASB project on the Conceptual Framework.

In addition, the interrelationship between this current project and the 2004 Invitation to Comment (2004 ITC) needs to be clarified. The Consultation Paper is revisiting some of the same areas canvassed in the 2004 ITC. We believe that the IPSASB should further elaborate on the views respondents had about this issue in 2004 and the conclusions the IPSASB made, including whether there was any consensus.

IPSASB Project Brief: Long-Term Fiscal Sustainability

NSW Treasury supports this project.

We recommend that the project scope should address all governmental programs and finances, not just those related to social benefits, as well as future cash flows associated with the right to tax.

We agree that the project does not need to address environmental sustainability, although we admit there may be linkages between the two.

As to what the reporting entity is for the purpose of long-term fiscal sustainability reporting, NSW Treasury believes that the reporting entity should be at the whole-of-government level. Going down to the sector or individual entity level would be inappropriate.

Although several jurisdictions already publish this type of information, the development of either a standard or guidance in this area would enhance consistency and comparability. We feel that IPSASB would be the appropriate body to develop such a standard or guidance.

ATTACHMENT 1

COMMENTS ON IFAC PSC INVITATION TO COMMENT (ITC): ACCOUNTING FOR SOCIAL POLICIES OF GOVERNMENTS

General Comments

HoTARAC acknowledges that this is a difficult but important area of public sector accounting, where it is difficult to prescribe a standard that is both conceptually correct and practical.

The PSC appears to advance two broad approaches in this ITC. Under the first approach, explained by Option 1, liabilities are recognised until the next point in time that eligibility criteria must be satisfied. This is, in effect, a small extension on the current due and payable approach. The second approach, set out in Options 2 and 3, requires recognition of a liability at an earlier stage - either when the criteria are first met or before they are met. This is a significant departure from current practice.

HoTARAC believes that Options 2 and 3 are unworkable. HoTARAC believes these options would dilute the usefulness of financial statements and would be inconsistent with accounting for future tax revenues. These options appear to confuse probable government expenditure, with those expenditures where the government has no realistic alternative.

A majority of HoTARAC members believe that Option 1 is superior to the other options but note that it is subject to a judgement about whether a government has no realistic alternative but to sacrifice future economic benefits. For example, a ten year period between entitlement testing does not necessarily mean that the government will not change the scheme in this period. Therefore, the majority of HoTARAC members prefer the current "due and payable" approach as discussed in the Invitation to Comment.

Governments rarely have obligations to make specific social welfare payments. Rather, they typically commit to an obligation to achieve certain desired outcomes. For example, a Government may make a commitment to provide affordable, accessible health care. In doing so, the Government has not necessarily created an obligation to provide specific services in a specific location. Similarly, an obligation to ensure that citizens with no, or minimal, market based income have an acceptable standard of living does not commit the Government to an ongoing program of support, or to ongoing payments to identified individuals.

A minority of HoTARAC members support Option 1, as it is based on GAAP principles, whereas it is not clear what principles underlie the "due and payable" approach.

Current Australian Practice

In Australia, the Australian Government is responsible for the bulk of welfare payments. State and Territory governments have a greater role in the provision of goods and services to the community.

Governments in Australia essentially use the "due and payable" approach described in Chapter 1 of the ITC. Social benefits that will be paid in the future are not recognised except for those benefits accrued at reporting date but payable in the following reporting period. No liability is recognised for future services to be provided, such as disaster relief, legal aid or defence services.

For example, pensions, unemployment benefits, child support etc are generally paid every two weeks. If the balance date was one week into this period, a liability would be shown for that week, despite the fact the money will not be paid until the next period. This treatment is consistent with other expenses, such as public service wages.

Further information can be found in AAS 31 *Financial Reporting by Governments* at paragraphs 12.1.2 and 12.1.3. (see Attachment A)

HoTARAC view on Options provided in Invitation to Comment

Whilst a majority of HoTARAC members do not support any of the options outlined in Chapter 4 of the ITC, Option 1 is preferred to Options 2 or 3.

Option 1 – Satisfy all eligibility criteria

Option 1 assumes that the Government has no realistic obligation but to make payments from the date that the recipient first meets the eligibility criteria, until the date that eligibility is reassessed. However, there is still scope or discretion to avoid the sacrifice of future economic benefits. Where eligibility is reassessed frequently, it may be argued that, in the interim, it is unlikely that the Government would change legislation to avoid making a payment. However, particularly where a long period intervenes between entitlement and final payment, circumstances could change sufficiently that governments would be able to justify a suspension of payments.

Therefore, a majority of HoTARAC members have reservations about Option 1, in that it would still give rise to obligations for social benefit payments in future reporting periods, even where there is no binding obligation and the Government has the discretion to avoid the sacrifice of future economic benefits. Where social benefit payments are not frequently reassessed for eligibility, application of Option 1 will give rise to a similar outcome to Option 2.

Also, some Australian governments produce Consolidated Financial Statements on a monthly basis. For example, if old age pensions were reassessed every two months, the Steering Committee's majority option would require a full two months expenses relating to old age pensions to be shown in one month, together along with a liability for the next month. In the following month, the liability would be reduced with no expense recognised. This would create confusion and inconsistency between reporting periods.

As discussed above, a minority of HoTARAC members support Option 1. They consider that, where eligibility criteria are satisfied, a constructive obligation arises. If there is sufficient uncertainty surrounding the payment, making it unlikely that a payment will be made to individuals who satisfy the current eligibility criteria, a measurement issue will arise. It is important to clearly separate measurement issues from principles underlying the definition of a liability.

Option 2 – Satisfy threshold eligibility criteria

Option 2 is not supported. In addition to the issues identified for Option 1 above, Option 2 gives rise to the following problems:

- it relies on the assumption that, when a person reaches the eligibility criteria, they will remain eligible and the eligibility criteria and social benefits arrangements will remain unchanged. This means that a liability is recognised, even though there is discretion to avoid the sacrifice of future economic benefits;
- it relies on recognising all future social obligations up front and would create liabilities and expenses, but there would be no corresponding revenues and assets as future tax revenues are not recognised;
- the Invitation to Comment states that, "financial statements deal with the financial position of an entity at the end of its reporting period and not its possible position in the future." Governments also produce Budget Papers that are publicly available and which set out future spending; and
- social benefits are not the only obligation that governments have no realistic alternative but to continue to pay. For example, governments could not operate without a public service. Whilst governments may not have a legal obligation for future wages, if a government chooses to reduce the public service it will have a legal obligation to pay termination benefits. However, governments do not show any liability in this regard.

Option 3 – Key participatory events

Option 3 is not supported for the same reasons as Option 2. Indeed, Option 3 would recognise a liability when certain key participatory events have occurred. HoTARAC believes that, apart from the issues raised in Option 2, the determination of an obligating event in Option 3 is too arbitrary. For instance, individuals enter the workforce at different ages and different individuals are entitled to other social benefits apart from old age pensions. It is also not reasonable to commit future governments to the policy of the current government. Whilst it is certain that all future governments will provide some level of social welfare payments, the eligibility criteria may change.

Under Option 3, recognising an expense and a liability for future social obligations would further dilute the usefulness of the Statement of Financial Performance. For example, if old age pensions were expensed at birth and a liability shown, the general journal entry when pensions are paid would simply be to debit liability and credit cash. No expense would be shown for the period to which the expense relates.

HoTARAC views on the appropriate accounting treatment for each class of obligation are at Attachment B.

Specific Matters for Comment

(a) Do you consider that separate Exposure Drafts and IPSASs should be prepared for:

i) old age and similar pensions; and

ii) other social policy obligations?

A majority of HoTARAC members consider that there is no reason for treating old age pensions separately from other social policy obligations. Old age pensions are similar to other social obligations of government, and a consistent conceptual approach is preferred.

A minority of HoTARAC members support separate Exposure Drafts for old age pensions and similar pensions and other social policy obligations, on the basis that they are both complex areas and should therefore be separated to allow detailed discussions.

(b) Do you consider that unfunded pension plans to provide government employees with benefits as a consequence of their employment, where the pensions are to be paid from government revenues, should be included or excluded from the scope of any forthcoming IPSAS on social policy obligations?

In Australia, most government employees are members of public sector superannuation schemes, covered by other accounting standards. Accounting for government employee superannuation schemes should be no different than the requirements for private sector employees. Therefore, HoTARAC supports the development of an IPSAS based on IAS 19 *Employee Benefits.*

(c) Do you agree that notions of social benefits are well understood and need not be defined in an IPSAS? If you are of the view that it is necessary to define social benefits for inclusion in an International Public Sector Accounting Standard (IPSAS), please outline the reasons for this view and your proposed definition.

A majority of HoTARAC members support the definition provided in paragraphs 7 and 8 of IPSAS 19 as shown in Figure 2.2 of the ITC. However, a minority of HoTARAC members believe that it would be beneficial to more clearly define social benefits, based on Government Finance Statistics (GFS) concepts.

(d) Do you agree that the definition of a liability and the related concepts of a legal and constructive obligation in IPSAS 19 should be applied to non-exchange transactions in the public sector?

HoTARAC agrees that the definition of a liability and the related concepts of a legal and constructive obligation should be applied to non-exchange transactions in the public sector. However, HoTARAC believes that, when these concepts are applied to social benefits, there are a limited number of constructive obligations in the public sector.

HoTARAC agrees with the comments made on pages 38 and 39 of the ITC that "governments frequently change the nature and amount of benefits and rarely provide categorical assurances that current benefits will continue to be provided in future periods. Governments are frequently in power for limited periods and would be unable to give such assurances even if they wanted to."

Governments do not have obligations to make specific payments, but rather have an obligation to achieve certain desired outcomes. For example, a Government may make a commitment to provide affordable, accessible health care. In doing so, the Government has not necessarily created an obligation to provide specific services in a specific location. Similarly, an obligation to ensure that citizens with no, or minimal market based income have an acceptable standard of living does not commit the Government to a specific program of support, or to specific payments to identified individuals.

A Government would have a present obligation for a particular income support payment or service provision only where:

- it has explicitly accepted responsibility to sacrifice resources for provision of the particular social benefit payment and communicated this to relevant parties;
- the recipients have acted on the Government's acceptance and would suffer detriment from the promise being withdrawn; and
- the Government intended the recipients to act in a certain way or would have known that the recipients had no realistic alternative but to act in a certain way, such that the Government has little or no discretion to avoid the sacrifice of future economic benefits.

(e) Do you agree with the Steering Committee's conclusions about the alternate approaches to determine when a constructive obligation arises in Chapter 4. Are you of the view that there are other circumstances in which a constructive obligation may arise?

As stated above, a majority of HoTARAC members prefer Option 1, but do not fully support any of the options put forward in the ITC. Rather, the majority of HoTARAC members support the current approach adopted in Australian Accounting Standard AAS 31 *Financial Reporting by Governments*, which is similar to the "due and payable" approach referred to in the ITC.

In Australia, the onus is on constituents to inform the Government that they are no longer eligible for benefits. Obviously, there are government officials whose responsibility it is to check this, however a person's eligibility is a day-by-day proposition.

A majority of HoTARAC members believe that satisfying the eligibility criteria is not conclusive as to whether an obligation should be recognised. It might be possible for the Government to cease payments during the period, especially if the recipients would incur no detriment over the remainder of the period from cessation of the payments.

A minority of HoTARAC members support Option 1 and consider it would be very unusual for a Government to cease payment during a period when the eligibility criteria has been satisfied, while it is not clear that, if payment ceased, the recipient would not be worse off than if the payment continued.

Those HoTARAC members believe that, if it is considered likely that payments will cease, the recognition criteria for liabilities would not be satisfied on the basis that the future sacrifice of economic benefits is not likely.

(f) Do you agree with the Steering Committee View in Chapter 5 that a present obligation for the provision of goods or services to constituents does not arise prior to the provision of those goods and services? Do you agree that any costs incurred in acquiring goods and services for delivery in the future should be recognised in accordance with IPSASs or, in the absence of such, other generally accepted accounting practices for dealing with such exchange transactions?

HoTARAC agrees that there is no obligation prior to the provision of the goods and services. Governments often have very broad general obligations, such as to provide adequate public health care to those who cannot afford to pay for it. However, this obligation does not result in a present obligation to provide health services in future periods.

The Government has a number of realistic alternatives, including the power to revise policies, introduce new programs to replace existing services or enact new legislation to revise eligibility criteria.

The determination of whether a liability exists must be assessed for each program on a case-by-case basis in order to ensure the consistent application of the principles. It is agreed that, as a general rule, a liability would not exist in the case of collective goods and services.

HoTARAC agrees that any costs incurred in acquiring goods and services for delivery in future should be recognised in accordance with generally accepted practice for exchange transactions.

(g) Do you agree that the financial reporting consequences of cash advances provided by a government to allow individuals to purchase specified goods and services as discussed in Chapter 5 differ from cash advances discussed in Chapter 6 which are provided for use at the discretion of the recipient?

A majority of HoTARAC members support a "due and payable" approach for all categories of social benefits.

For example, the Government may provide constituents with vouchers to purchase goods and services. Upon presentation of the vouchers the businesses providing the goods and services would invoice the Government. The Government would have a liability for the unpresented vouchers as at the reporting date. Measurement of the liability should take into account the possibility that some vouchers will never be claimed. They would also be required to show a liability for invoices unpaid.

Alternatively, if the Government paid the providers up front and then issued vouchers to constituents, the Government could show an asset for the unclaimed vouchers.

If a Government has a stated policy that it will reimburse constituents upon presentation of a receipt for the purchase of that good or service, it would have a liability for the amounts unpaid at reporting date. This is because the constituents have acted upon a policy of the Government and will suffer detriment if the Government does not honour its agreement.

(h) Do you agree with the Steering Committee View in Chapter 7, that the principles developed in Chapters 5 and 6 also apply to specific events, such as disaster relief, which give rise to obligations which government will satisfy in the future? If you disagree with this view, please identify the factor(s) that make disaster relief and similar specific events different from other benefits as considered in Chapters 5 and 6.

The same rules will apply to disaster relief principles as other social policy obligations. A Government's commitment only arises when a disaster occurs and entitlement conditions are satisfied for payment during a particular payment period.

(i) Do you agree with the majority view of the Steering Committee regarding old age pension obligations, the minority view or do you have another view?

A majority of HoTARAC members support the "due and payable" approach to all categories of social benefits.

While HoTARAC strongly prefers the majority view it does see merit in governments including note disclosure outlining the Government's intention to continue to provide benefits.

(j) Do you agree with the Steering Committee View in Chapter 9 that the disclosure requirements in IPSAS 1 *Presentation of Financial Statements* and IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets* should apply in respect of social benefits and that additional detailed disclosures of individual social benefits should not generally be required?

If HoTARAC's majority preference for the "due and payable" approach is adopted, few social benefits would be recognised as liabilities. The disclosure requirements of IPSAS 1 and IPSAS 19 would be appropriate. HoTARAC does not believe that the disclosure of individual social benefits should be required.

HoTARAC also believes that note disclosure, outlining whether the Government intends to continue to provide benefits in accordance with its social policy obligations, may be useful to users of financial reports.

(k) Do you agree with the Steering Committee View in Chapter 9 that the PSC should explore the possibility of requiring disclosures about the overall sustainability of a government's social benefits including the assumption that higher level disclosures are more likely to meet users' needs?

HoTARAC fully supports the PSC reviewing the framework for reporting information about the sustainability of government programs, but outside the general purpose financial report. This issue is also part of a wider issue regarding triple bottom line and sustainability reporting. This type of issue is not confined to government. For this reason, HoTARAC believes that the PSC should review this issue in conjunction with other IASB projects, including its project of "management discussion and analysis".

HoTARAC notes that the preparation of a separate statement as part of the budget is one way of addressing this issue. The Australian Government has been at the forefront of this issue by preparing, as part of the 2002-03 Budget, an intergenerational report looking at the sustainability of government spending for the next 40 years. This report will be produced every five years. Addressing the problem of Australia's aging population, the Australian Treasury this year released a Discussion Paper, "Australia's Demographic Changes."

HoTARAC further believes that the issues raised by the ITC suggest that the current conceptual framework may be deficient. HoTARAC believes that a separate conceptual framework for public sector reporting should be investigated. The current reports of Statement of Financial Performance (Operating Statement), Statement of Financial Position (Balance Sheet) and Statement of Cash Flows may not be sufficient to present the financial operations of the Government.

(l) Do you foresee any audit issues that might arise if "sustainability disclosures" were included in the financial statements?

There is an inherent difficulty in verifying prospective financial information. Auditors tend to limit the scope of their work when reporting on prospective information due to inherent uncertainties regarding the achievement of the projections.

Selected paragraphs of Australian Accounting Standard (AAS) 31 *Financial Reporting by Governments*

12.1.2 Subject to paragraph 17.1, this Standard requires liabilities to be recognised in the statement of financial position, provided that they meet the recognition criteria set out in paragraph 12.1. Transactions or other events that do not give rise to a present obligation to sacrifice economic benefits to another entity in the future do not meet the definition of liabilities. The intention of a government to make payments to other parties, whether advised in the form of a budget policy, election promise or statement of intent, does not of itself create a present obligation that is binding on the government. A liability would be recognised only when the government is committed in the sense that it has little or no discretion to avoid the sacrifice of future economic benefits. For example, a government does not have a present obligation to sacrifice future economic benefits for social welfare payments that might arise in future reporting periods. A present obligation for social welfare payments arises only when entitlement conditions are satisfied for payment during a particular payment period. Similarly, a government does not have a present obligation to sacrifice future economic benefits under multi-year public policy agreements until the grantee meets conditions such as grant eligibility criteria or has provided the services or facilities required by the grant agreement. In such cases, only amounts outstanding in relation to current or previous periods satisfy the definition of liabilities.

12.1.3 Some transactions or events may give rise to legal, social, political or economic consequences that leave a government little, if any, discretion to avoid a sacrifice of future economic benefits. In such circumstances, the definition of a liability is satisfied. An example of such an event is the occurrence of a disaster, where a government has a clear and formal policy to provide financial aid to victims of such disasters. In this circumstance, the government has little discretion to avoid the sacrifice of future economic benefits. However, the liability must be recognised only when the amount of financial aid to be provided can be measured reliably.

ATTACHMENT B

View on Each Class of Obligation

Collective Goods and Services

HoTARAC agrees with the Steering Committee View on this issue. No liability should be recognised for collective goods and services to be provided in future periods. Expenses and liabilities should be recorded in accordance with current generally accepted practice, that is, the "due and payable" approach.

Individual Goods and Services

The Steering Committee View is the same as for collective goods and services and is supported by HoTARAC.

Cash transfers to individuals

For the reasons described above in relation to Option 1, the Steering Committee View is not supported by a majority of HoTARAC members. That is, adoption of this approach may result in a liability for social benefit payments that might arise in future reporting periods. This is not supported, because there may be discretion to avoid the sacrifice of future economic benefits.

Disaster Relief

HoTARAC believes the same rules should apply to disaster relief as other social policy obligations. A Government commitment only arises when the disaster occurs and a Government has made a commitment to make payments and the amount to be provided can be measured reliably.

Legal Aid

In Australia, the Australian Government provides funding to State legal aid commissions to fund legal advice for disadvantaged persons.

States and Territories do not show a liability for legal aid services to be provided in the future.

HoTARAC believes that there should not be any change to the current practice, and notes that this is in line with Example 8A of the ITC.

Old Age Pensions

A majority of HoTARAC members believe that old age pensions are part of the general operation of government. As such, they should be treated in the same way as other social benefits, that is, the "due and payable" approach.