IPSASB
Response to Consultation Paper on Exposure Draft 63 - Social Benefits

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Introduction

1. ICAS welcomes the opportunity to comment on this consultation. We are a leading professional body for chartered accountants with over 20,000 members working across the UK and internationally.

2. ICAS's Charter requires its committees to act primarily in the public interest, and our responses to consultations are therefore intended to place the public interest first. Our Charter also requires us to represent our members' views and to protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount.

Key Points

3. We welcome the publication of this exposure draft as a starting point to consider improvements in accounting for social benefits. Whilst differences in opinion may persist, it is helpful to get the ball rolling and trigger improvement.

4. Given the complexity and variety of social benefits, a flexible accounting approach is needed to maintain faithful representation of the substance of the transactions.

5. To meet the need for greater transparency and understanding of the financial health of governments, a holistic solution is required, of which the financial statements only form part.

6. We would welcome further feedback on impact assessments to help manage implementation and minimise the risk of deterring those who are seeking to embark on the accruals journey. A transitional approach is preferred; this could focus on the obligating event approach first, moving towards a greater refinement of the recognition point over time.

7. Our policy position for public sector standards is to align as much as possible with the international accounting framework, IFRS, to avoid over specialism which can create complexity and reduce broader understanding. We only support divergence where there is a justified and material difference for the public sector which would inhibit the true and fair view, and this must be clearly explained to the reader of the financial statements.

8. Our response to the specific matters for comment is in Annex 1.

9. Any enquiries should be addressed to Alice Telfer, Head of Business Policy and Public Sector, atelfer@icas.com

ANNEX 1

Specific responses to consultation questions

Specific Matter for Comment 1:

Do you agree with the scope of this Exposure Draft, and specifically the exclusion of universally accessible services for the reasons given in paragraph BC21(c)?

If not, what changes to the scope would you make?

Our response:

Yes, we agree.

Specific Matter for Comment 2:

Do you agree with the definitions of social benefits, social risks and universally accessible services that are included in this Exposure Draft?

If not, what changes to the definitions would you make?

Our response:

Yes, however we suggest that the characteristics of long and short term social benefits are clarified as this will guide decision making on the most appropriate accounting method.

Specific Matter for Comment 3:

Do you agree that, with respect to the insurance approach:
(a) It should be optional;
(b) The criteria for determining whether the insurance approach may be applied are appropriate;
(c) Directing preparers to follow the relevant international or national accounting standard dealing with insurance contracts (IFRS 17, Insurance Contracts and national standards that have adopted substantially the same principles as IFRS 17) is appropriate; and
(d) The additional disclosures required by paragraph 12 of this Exposure Draft are appropriate?

If not, how do you think the insurance approach should be applied?

Our response:

(a) Yes.
(b) Yes.
(c) Yes.
(d) See our response to question 5a.

Specific Matter for Comment 4:

Do you agree that, under the obligating event (OE) approach, the past event that gives rise to a liability for a social benefit scheme is the satisfaction by the beneficiary of all eligibility criteria for the next benefit, which includes being alive (whether this is explicitly stated or implicit in the scheme provisions)?

If not, what past event should give rise to a liability for a social benefit?

This Exposure Draft includes an Alternative View where some IPSASB Members propose a different approach to recognition and measurement.

Our response:

Identifying the appropriate recognition point is not straightforward and will vary depending on the nature of the scheme and how it operates. There is not a clear single answer to what is the most appropriate accounting treatment. Factors for consideration include:

- whether it is a long-term scheme (for example state pensions) where the payment of national insurance contributions creates a valid expectation that the benefit will be received at a point in the future (and therefore creates a constructive obligation earlier in the cycle);
- contribution based jobseeker's allowance which is generally short term but requires entitlement to be demonstrated on an on-going basis (consequently triggering a later recognition point); and
- non-contribution based schemes such as industrial injuries or disabilities benefits which can be long-term but need certain eligibility criteria to be met at a point which is closer to the date of payment.

Clearer articulation in the standard (see question 2 response) of the characteristics of long versus short term benefits and whether contribution-based or not, will help to establish principles which decision makers can apply to select the most appropriate option.

The obligating event approach is not likely to represent the economic substance of the transaction for all social benefits. It is important to increase transparency through consistent recognition of liabilities in the balance sheet and report economic impact, so an earlier recognition point may be more appropriate for some benefits. As an example, operation of the state pension in the UK suggests that the alternative approach may be more appropriate. Pensions once payable, are for life and a short one-month liability (to the next eligibility date) does not reflect this long-term obligation. Some flexibility will be needed to enable selection of the most suitable approach on a principles basis.

The alternative approach could potentially create significant liabilities which risk swamping the balance sheet, making it less understandable for readers, which is inconsistent with the qualitative characteristics for useful financial information in the Conceptual Framework for Financial Reporting. This will need to be considered carefully in an impact assessment.

The difference in recognition points and prospect of policy or legislation changes can make measurement challenging and increase uncertainty. The cost-benefit ratio of acquiring relevant information also needs to be taken into account. This is considered in the application of principles in IAS 37 and we would encourage consistency.

The accounting only represents one aspect of better understanding (and communicating) a nation's financial health. Focusing solely on the liability is one-sided and an explanation of how this will be funded would strengthen understanding. There will need to be good cross referencing to other information beyond the financial statements supported by high level commentary to inform contextual understanding. Further comments are in our response to question 6.

The potentially significant impact of the alternative approach may justify a transitional arrangement so that accounts could start with the OE approach and work towards the alternative view (as appropriate), refining their recognition point over time.

We are not convinced that "being alive" needs stressed for social benefits as an appropriate eligibility criterion and doing so risks creating misunderstanding.

Specific Matter for Comment 5:

Regarding the disclosure requirements for the obligating event approach, do you agree that:

(a) The disclosures about the characteristics of an entity's social benefit schemes (paragraph 31) are appropriate;

(b) The disclosures of the amounts in the financial statements (paragraphs 32–33) are appropriate; and

(c) For the future cash flows related to from an entity's social benefit schemes (see paragraph 34):
(i) It is appropriate to disclose the projected future cash flows; and
(ii) Five years is the appropriate period over which to disclose those future cash flows.

If not, what disclosure requirements should be included?

Our response:

(a) It is useful to explain the characteristics but not within the financial statements. To minimise clutter and reduce duplication with other sources of information we believe this would sit better elsewhere e.g. a website supported by clear cross referencing from the financial statements.
(b) Yes.
(c) Providing cash flows is useful information but it forms part of broader sustainability reporting, so we believe this detail is better communicated elsewhere (see our response to question 6). We note the limitations of the standard setter operating within the boundary of financial statements. A 5-year horizon is relatively short given the nature of the benefits, so we suggest that adding groups for 5-10 years and 10 years plus would be helpful.

Specific Matter for Comment 6:

The IPSASB has previously acknowledged in its Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities, that the financial statements cannot satisfy all users' information needs on social benefits, and that further information about the long-term fiscal sustainability of these schemes is required. RPG 1, Reporting on the Long-Term Sustainability of an Entity's Finances, was developed to provide guidance on presenting this additional information.

In finalizing ED 63, the IPSASB discussed the merits of developing mandatory requirements for reporting on the long-term financial sustainability of an entity's finances, which includes social benefits. ***Advantages and disadvantages are on pages 4-5*** *of the Full consultation paper - Exposure draft 63 Social Benefits.*

Do you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, and if so, how?

If you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, what additional new developments or perspectives, if any, have emerged in your environment which you believe would be relevant to the IPSASB's assessment of what work is required?

Our response:

We encourage continuation of this work, whether it is IPSASB or another body, given the resource constraints and limitations of scope IPSASB operates within. We agree that this does not sit within the financial statements but forms part of a broader reporting framework for understanding performance (financial and non-financial) including integrated reporting.

A more complete picture of the nation's long-term liabilities informs understanding of a nation's longer-term financial health. However, understanding the longer-term financial sustainability of governments involves projections and economics which is beyond the scope of financial statements. Ultimately, users are interested in what obligations exist, projected income, projected cash outflow, any funding gap and what a government plans to do to address this. Communicating a projected gap analysis would be useful.

To attempt to meet all these needs is beyond the scope of financial statements. It may require a combination of methods such as a separate sustainability report, a liability in the accounts, and perhaps also an off-balance sheet contingent liability note for the longer-term impact. A note could identify all the social benefits and explain how they will be funded as they fall due, to offer information on the longer-term perspective. A note would need to be highlighted in the Management Commentary/Strategic Report (or equivalent) to ensure it is given appropriate profile and explanation.