INTERNATIONAL FEDERATION OF ACCOUNTANTS

545 Fifth Avenue, 14th Floor
New York, New York 10017
Internet: http://www.ifac.org

Tel: (212) 286-9344
Fax: (212) 286-9570

DATE:	28 OCTOBER 2005
MEMO TO:	MEMBERS OF THE IPSASB
FROM:	JOHN STANFORD
SUBJECT:	ED – ACCOUNTING FOR SOCIAL POLICIES OF GOVERNMENT (EXCLUDING PENSION ARRANGEMENTS)

ACTION REQUIRED

The Board is asked to:

- **Consider** the approach to key issues on which Staff was given directions at the New York meeting; and
- **Review** the draft Exposure Draft "Accounting for the Social Policies of Government (excluding Pension Arrangements)" with a view to approval for issue or provide directions for amendment

AGENDA MATERIAL

		Pages
9.2	ED XX, "Accounting for the Social Policies of Government (excluding Pension Arrangements)"	9.6 – 9.57

BACKGROUND

The IPSASB (then the Public Sector Committee (PSC)) issued the ITC "Accounting for the Social Policies of Government" in January 2004 with a deadline for comments of June 30 2004. The ITC had been developed by a separate Steering Committee and the views expressed were those of the Steering Committee. The PSC reviewed the ITC and cleared it for issue. Forty-nine responses were received to the ITC. Respondents were generally supportive of the views expressed by the Steering Committee. In accordance with the views expressed by the majority of respondents, members agreed that the definitions and recognition criteria in IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets* should be applied in accounting for obligations arising from the social policies of government.

At the Oslo Meeting in March 2005 members agreed that the Social Policy Obligations project should be split into the following broad components for its further development:

- Social benefits other than pensions (and similar social benefits) ;
- Basic/welfare distress type pensions (and age-related social benefits); and
- General/contributory pensions in which benefits provided have a relationship to the amount of contributions made by or on behalf of members (and in some jurisdictions by private sector employees).

At the New York meeting in July 2005 members carried out a broad review of a first draft ED on social benefits other than pensions and considered in detail a number of key issues related to general social benefits identified in the Staff memorandum. Members confirmed the approach proposed by Staff. Key decisions made at that meeting included:

- a confirmation that for individual goods and services and cash transfers the obligating event occurs when all eligibility criteria have been satisfied;
- that “staying alive” or demonstrating continuing existence is an implicit eligibility criterion and therefore a recognition criterion rather than a measurement attribute; and
- not proceed with a rebuttable presumption for collective and individual goods and services in relation to disaster relief (see (b) below).

A further draft of the ED is at Agenda Item 9.2 This is a clean version and has been very substantially amended. A marked-up copy is available on request. Members also agreed that a review of IAS 19, Employee Benefits should be initiated at the November/December 2005 meeting, subject to staff resources. An issues paper highlighting issues on the applicability of IAS 19 to public sector entities is at Agenda Item 10.5.

ISSUES

(a) Scope

The draft ED continues to exclude from its scope pensions and social benefits where pensionable age, as laid down in legislation or regulation, is an explicit eligibility criterion. As in the original draft this scope exclusion includes individual goods and services such as age related medical benefits and cash transfers such as pension support, where one of the key eligibility criteria is attainment of that pensionable age. Employee pensions, whether funded or not, continue to be outside the scope of this ED as they are exchange transactions.

At the New York meeting members agreed to consider in detail the linkages between the approach to basic/welfare type pensions (previously described as basic/distress pensions) and this non-pensions ED, and whether the requirements in the two areas should be combined. A further updated version of extracts from a draft Basic/Welfare ED is provided at Item 10.2. Confirmation by members at the New York meeting that a present obligation for the basic/welfare pension does not arise until all eligibility criteria have been satisfied and identifies “staying alive” as an eligibility criterion, brings requirements relating to non-pension social benefits and the basic/welfare pension into alignment.

However, the interactions between, firstly, basic/welfare and general/contributory pensions and, secondly, general/contributory pensions and employee benefits are complex and the boundaries between them blurred. Staff considers that these factors provide a compelling case for keeping all pensions together for analytical purposes, at least at this stage of the Ed’s development. Consequently, Staff is of the view that it is appropriate to segregate the basic/welfare pension and age-related social benefits from general social benefits and to proceed with an ED on the latter. This rationale is reflected in the Basis for Conclusions at paragraph BC 7. Members are asked to confirm the Staff view.

(b) Rebuttable presumption in relation to collective and individual goods and services

As noted above, the ED reviewed at the New York meeting contained a rebuttable presumption that, for collective and individual goods and services, a present obligation does not arise prior to the delivery of the goods and services. In commentary the ED indicated that the rebuttable presumption might be applied in relation to specific events such as disaster relief. In accordance with directions at that meeting this rebuttable presumption has been deleted. Therefore, for collective goods and services a present obligation cannot arise until goods and services are delivered, and that obligation to the provider of the goods and services, not the citizens. For individual goods and services a present obligation does not arise until all eligibility criteria have been satisfied. This means that for reporting purposes no liabilities in respect of collective goods and services will exist at the reporting date. The crystallization of liabilities, if any, in relation to individual goods and services is discussed further at (c).

(c) "Staying Alive" as an eligibility criterion

Members gave directions at the July 2005 meeting in New York that "staying alive" or asserting an applicant's continuing existence is an eligibility criterion rather than a measurement attribute. The draft ED has therefore been amended to reflect this decision. Effectively, staying alive is an implicit eligibility criterion for all programs for individual goods and services and cash transfers. This implicit eligibility criterion must be satisfied in addition to the explicit eligibility criteria laid done in governing legislation and regulations before a present obligation arises. This means that the only liabilities recognized for cash transfers at the reporting date will be those "due and payable". There may be rare circumstances where the legislation or regulations governing cash transfer programs allows the relatives or estate of the beneficiary to receive any resources transferable up to the next date at which explicit eligibility criteria have to revalidated in the event of the beneficiary's death prior to that revalidation date. In such circumstances, the liability for amounts "due and payable" will include both amounts outstanding at the reporting date and, additionally, amounts payable up to that next validation date.

For individual goods and services, liabilities are unlikely to exist at the reporting date. This is because an obligation to sacrifice resources on the part of the government or public sector entity transferring the goods and services will normally only arise when the individual beneficiary who has satisfied the explicit eligibility criteria stays alive in order to benefit from that transfer of resources. In the event of the applicant's demise prior to the receipt of those goods and services there is unlikely to be a present obligation on the part of the government or public sector entity. For example, an individual may have satisfied all the explicit eligibility criteria for free hospital treatment and a date may have been set for surgery. However, if that individual dies prior to that date, there will be no obligation to sacrifice resources on the part of the hospital or health authority. Similarly, as part of a government run program providing free drugs, an applicant may have satisfied all the formal eligibility criteria for receipt of pharmaceuticals. If that applicant dies prior to the date on which the pharmaceuticals are to be provided it is extremely unlikely that the terms of the program will allow the applicant's relatives or estate to be provided with the pharmaceuticals, or that there will be any obligation on the part of the government to sacrifice resources to either the deceased applicant's relatives or estate.

However, there may be a very limited number of cases where an obligation to sacrifice resources arises immediately following the satisfaction of explicit eligibility criteria. In such cases the implicit eligibility criterion of "staying alive" is satisfied at the point that all the explicit eligibility criteria have been satisfied. For example, a government may institute a program to give citizens who have served in the armed forces for a specified period a plot of land as part of a land transfer program. In the event of the death of an individual who has satisfied the explicit eligibility criteria prior to the transfer of the land the terms of the program may allow for the plot of land to be transferred to the individual's relatives or estate. In such a case if the individual had died before the reporting date but the transfer of the land had not been effected there would be a liability on the part of the government agency. Guidance in the ED highlights that measurement will be at the carrying value of the asset, where the transferring entity controls the asset, or at fair value if the transferring entity has to acquire the asset.

Members are asked to confirm this approach.

(d) Liabilities v Provisions

As members are aware the ED has been developed using a framework drawn from IPSAS 19. However, the limited circumstances under which present obligations arise in relation to social benefits-and in particular the elimination of the rebuttable presumption in relation to disaster relief have led Staff to conclude that liabilities in relation to present obligations for social benefits are unlikely to be provisions. A provision is a liability of uncertain timing or amount. Under the circumstances in which liabilities will arise from the requirements of the ED there will be little uncertainty about amount and the date at which liabilities are to be settled will be identifiable with acceptable accuracy. Such a view means that certain material from IPSAS 19, for example that providing requirements on the Changes In and the Use of Provisions, is no longer applicable. The majority of the disclosure requirements drawn from IPSAS 19 also become redundant. Staff also notes that the decision that "staying alive" is an eligibility criterion and its consequences mean that material drawn from IPSAS 19 on discounting is no longer necessary.

Members are asked to confirm this approach.

(e) Presentation of Liabilities Related to Social Benefits Disclosures Related to Contingent Liabilities

The approach to disclosure follows the line that further disclosures on liabilities arising from social benefits should not be mandated in the general purpose financial statements. However, the ED includes a requirement that liabilities related to social benefits (excluding pension arrangements) are to be presented as a line item on the face of the Statement of Financial Position, but does not mandate or preclude more detailed presentation.

The ED requires accounts preparers to aggregate all contingent liabilities related to social benefits to form one class.

It is proposed to highlight both these issues as Specific Matters for Comment. Members are asked to confirm the Staff approach or provide alternative directions.

(f) Transitional Provisions

Currently the ED does not include transitional provisions. Staff is of the view that the limited circumstances under which liabilities arise under the requirements of the ED, and the fact that those requirements are unlikely to lead to a radical modification of existing accounting policies for many constituents, do not justify the inclusion of transitional provisions. The need for transitional provisions is included as a Specific Matter for Comment. Members are asked to confirm this approach or provide alternative directions.

*

SECOND DRAFT ED

Accounting for

Social Policies of Government

(excluding Pension Arrangements)

The Mission of IFAC
To serve the public interest, IFAC will continue to strengthen the worldwide accountancy profession and contribute to the development of strong international economies by establishing and promoting adherence to high-quality professional standards, furthering the international convergence of such standards and speaking out on public interest issues where the profession's expertise is most relevant.

The International Public Sector Accounting Standards Board (IPSASB) is a standing board of IFAC. It develops accounting standards for the public sector.

Copies of this Exposure Draft may be downloaded free of charge from the IFAC website at http://www.ifac.org.

International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York, NY 10017 USA
http://www.ifac.org
Fax: +1 (212) 286-9570

Commenting on this Exposure Draft

This Exposure Draft of the International Federation of Accountants (IFAC) was prepared by the International Public Sector Accounting Standards Board (IPSASB). The proposals in this Exposure Draft may be modified in the final Standard in the light of comments received before being issued in the form of an International Public Sector Accounting Standard (IPSAS).

Comments should be submitted in writing so as to be received by xx xx 2006. E-mail responses are preferred. All comments will be considered a matter of public record. Comments should be addressed to:

The Technical Director
International Public Sector Accounting Standards Board
545 Fifth Avenue, 14th Floor
New York, New York 10017
United States of America

Fax: +1 (212) 286-9570
E-mail Address: publicsectorpubs@ifac.org

INTRODUCTION TO THE INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS

The International Federation of Accountants' International Public Sector Accounting Standards Board (IPSASB) develops accounting standards for public sector entities referred to as International Public Sector Accounting Standards (IPSASs). The IPSASB recognizes the significant benefits of achieving consistent and comparable financial information across jurisdictions and it believes that the IPSASs will play a key role in enabling these benefits to be realized. The IPSASB strongly encourages governments and national standard-setters to engage in the development of its Standards by commenting on the proposals set out in Exposure Drafts.

The IPSASB issues IPSASs dealing with financial reporting under the cash basis of accounting and the accrual basis of accounting. The accrual basis IPSASs are based on the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) where the requirements of those Standards are applicable to the public sector. They also deal with public sector specific financial reporting issues that are not dealt with in IFRSs.

The adoption of IPSASs by governments will improve both the quality and comparability of financial information reported by public sector entities around the world. The IPSASB recognizes the right of governments and national standard-setters to establish accounting standards and guidelines for financial reporting in their jurisdictions. The IPSASB encourages the adoption of IPSASs and the harmonization of national requirements with IPSASs. Financial statements should be described as complying with IPSASs only if they comply with all the requirements of each applicable IPSAS.

Due Process and Timetable

An important part of the process of developing IPSASs is for the Committee to receive comments on the proposals set out in IPSASB Exposure Drafts from governments, public sector entities, auditors, standard-setters and other parties with an interest in public sector financial reporting. Accordingly, each proposed IPSAS is first released as an Exposure Draft, inviting interested parties to provide their comments. Exposure Drafts will usually have a comment period of four months, although longer periods may be used for certain Exposure Drafts. Upon the closure of the comment period, the IPSASB will consider the comments received on the Exposure Draft and may modify the proposed IPSAS in the light of the comments received before proceeding to issue a final Standard.

Background

In January 2004 the Public Sector Committee (PSC which was reconstituted as the International Public Sector Accounting Standards Board in November 2004) issued an Invitation to Comment (ITC), *Accounting for Social Policies of Governments.* The ITC was prepared by a Steering Committee, which included both members of the PSC and individuals from outside the Committee. The ITC addressed the financial reporting consequences of a government's undertakings to provide a wide range of social benefits, including aged pension benefits and cash transfers to individuals and organizations.

Using a framework derived from IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets* the ITC analyzed different accounting options for a range of collective and individual social benefits and cash transfers payable by governments and other public sector entities. The ITC identified the Steering Committee's views on the appropriate accounting treatment for these benefits and cash transfers. The views propounded in the ITC were those of the Steering Committee and not necessarily those of the PSC.

Forty-nine submissions were received on the ITC. They reflected majority support for the Steering Committee views, although the level and intensity of this support varied amongst constituents. In late 2004 the Committee considered the comments made by constituents in their submissions and a number of staff papers addressing the key issues set out in the ITC. Because of the complexity of issues concerning pensions the IPSASB decided to deal with pensions and social benefits related to pensions separately from the other social policy obligations of government. This Exposure Draft therefore deals only with social benefits other than pensions.

Purpose of the Exposure Draft

This Exposure Draft proposes requirements for the accounting treatment of a range of governmental social policies other than those related to pensions and benefits related to pensions.

Request for Comments

Comments are invited on any proposals in this Exposure Draft by xxx 2006. The IPSASB would prefer that respondents express a clear overall opinion on whether the Exposure Draft in general is supported and that this opinion be supplemented by detailed comments, whether supportive or critical, on the issues in the Exposure Draft. Respondents are also invited to provide detailed comments on any other aspect of the Exposure Draft (including Implementation Guidance and the Basis for Conclusions) indicating the specific paragraph number or groups of paragraphs to which they relate. It would be helpful to the IPSASB if these comments clearly explained the issue and suggested alternative wording, with supporting reasoning, where this is appropriate.

Specific Matters for Comment

The IPSASB would particularly value comment on whether you agree that:

1. The definition of social benefits is sufficiently clear and comprehensive. If you disagree can you explain how this definition should be modified.

2. The definitions of collective goods and services, individual goods and services and cash transfers are appropriate. If they are not appropriate can you explain how they should be modified.

3. A present obligation in respect of collective goods and services only arises to the provider when the goods and services are delivered/provided. If you disagree when and to whom do you think that a present obligation in respect of collective goods and services arises?

4. A present obligation in respect of individual goods and services and cash transfers arises when all eligibility criteria have been satisfied. If you disagree can you indicate when a present obligation in relation to individual goods and services and cash transfers arises?

5. In the context of both individual goods and services and cash transfers "staying alive" is an implicit eligibility criterion and that:

   - a liability in relation to individual goods and services is not normally recognized at the reporting date; and

   - any liabilities recognized in relation to cash transfer programs will be limited to amounts "due and payable" at the reporting date.

6. The ED should not mandate disclosures for liabilities related to social benefits (excluding pension arrangements) but that there should be a requirement for such liabilities to be presented as a separate line item in the Statement of Financial Position. If you do not agree with this approach can you explain what approach you favor?

7. The ED should require that social benefits (excluding pension arrangements) should be treated as a class for the disclosures relating to contingent liabilities in paragraph 58. If you do not agree with this approach can you explain what approach you favor?

8. There is a need for the insertion of transitional provisions. If you think that transitional provisions are necessary can you provide reasons and also specify whether transitional provisions should apply to all social benefits or only some social benefits?

International Public Sector Accounting Standard
ED XX
Accounting for Social Policies of Governments (excluding Pension Arrangements)

CONTENTS

Paragraphs

Objective 1
Scope 2-8
Government Business Enterprises.. 7-8
Definitions.. 9-29
Goods and Services Encompassed by Social Benefits.. 10
Collective Goods and Services…………………………………….................. 11
Individual Goods and Services……………………………………….........12-14
Cash Transfers…………………………………………………….. 15-18
Aged Pensions.. 19-20
Obligating Events and Present Obligations……………………….........21-22
Legal Obligations and Constructive Obligations…………. 23-28
Contingent Liabilities.. 29
Initial Recognition.. 30-37
Liabilities 30
Present Obligation.. 31-37
Collective Goods and Services.. 38-41
Individual Goods and Services and Cash Transfers... 42-50

Individual Goods and Services 46-49
Cash Transfers 50

Contingent Liabilities 51
Measurement 52-55
Individual Goods and Services 54
Cash Transfers 55
Presentation and Disclosures 56-62
Effective Date 63-64

Appendix:
A. Amendments to other International Public Sector Accounting Standards

Implementation Guidance
Basis for Conclusions

International Public Sector Accounting Standard XX, "Accounting for the Social Policies of Government" (IPSAS XX) is set out in paragraphs 1-64. All the paragraphs have equal authority. IPSAS XX should be read in the context of its objective, the Basis for Conclusions and the "Preface to the International Public Sector Accounting Standards". IPSAS 1, "Presentation of Financial Statements" provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD IPSAS XX

Accounting for Social Policies of Governments (excluding Pension Arrangements)

Objective

1. Governments provide constituents with social benefits in the form of goods, services and cash transfers in the pursuit of social policy objectives. The objective of this Standard is to identify the circumstances in which social policies of governments (other than those relating to the provision of aged pensions and age related social benefits) give rise to a liability, and to establish requirements for accounting for such obligations.

Scope

2. **An entity which prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for social benefits except for:**

   a) **Aged pension benefits; and**

   b) **Other individual social benefits and cash transfers, where the eligibility criteria for entitlement include reaching a specified pensionable age.**

3. This Standard does not apply to aged pension benefits provided by governments to citizens when they reach a specified pensionable age laid down in legislation or regulation. In some jurisdictions, other individual goods and services and cash transfers such as enhanced health care benefits and pension support are linked to aged pension benefits. If

such goods and services and cash transfers are available more widely than to those who have reached pensionable age, they are within the scope of this Standard. If such benefits are only available to those who have reached pensionable age they are outside the scope of this Standard and will be dealt with in the Standard dealing with aged pension benefits. In some cases certain cash transfers may be referred to as pensions although entitlement does not depend on reaching a “pensionable age” – for example, disability pensions payable to individuals who are considered no longer capable of working due to injury or certain medical conditions. This Standard does apply to such cash transfers.

4. In some jurisdictions governments or public sector entities may provide individual goods and services such as health, housing and transport in exchange for consideration of approximately equal value -for example, when a hospital has a wing for patients who pay for medical services. Such transactions are exchange transactions and are outside the scope of this Standard.

5. In some jurisdictions, governments or their entities may provide individual goods and services in exchange for consideration that is not approximately equal in value to the benefits transferred by the government or public sector entity- for example, an individual may be required to contribute a nominal amount to the cost of an educational course. Such arrangements are within the scope of this Standard.

6. This Standard does not apply to employee benefits, including post-employment benefits provided to government employees and other employees in exchange for their services. Requirements in respect of employment benefits should be accounted for in accordance with the relevant international or national accounting standard dealing with employee benefits.

Government Business Enterprises

7. This Standard applies to all public sector entities other than Government Business Enterprises.

8. The Preface to International Public Sector Accounting Standards issued by the International Public Sector Accounting Standards Board (IPSASB) explains that Government Business

Enterprises (GBEs) apply International Financial Reporting Standards, which are issued by the International Accounting Standards Board (IASB).

Definitions

9. **The following terms are used in this Standard with the meanings specified:**

An aged pension is a cash transfer payable only to individuals that segment of the population that have reached pensionable age.

A cash transfer is a payment in cash, other than an aged pension, or a reduction in a tax liability, to protect individuals against certain social risks where use of the cash payment is at the discretion of the individual.

Collective goods and services are goods and services provided for consumption by the entire population or by a particular segment of the population in any jurisdiction.

A constructive obligation is an obligation that derives from an entity's actions where:

(a) By an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and

(b) As a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

A contingent liability is:

(a) A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-

occurrence of one or more uncertain future events not wholly within the control of the entity; or

(b) A present obligation that arises from past events but is not recognized because:

(i) it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or

(ii) the amount of the obligation cannot be measured with sufficient reliability.

An <u>eligibility criterion</u> is a requirement that an applicant must meet for entitlement to individual goods and services and cash transfers.

An <u>exchange transaction</u> is a transaction in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

<u>Government</u> means national, state/provincial, local/municipal and other levels of administration/government or their equivalents.

<u>Individual goods and services</u> are goods and services provided for individual consumption to protect an individual or individual household against certain social risks.

A <u>legal obligation</u> is an obligation that derives from:

a) A contract through its explicit or implicit terms;

b) Legislation; or

***c)* Other operation of law.**

Liabilities are present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.

Non-exchange transaction are transactions that are not exchange transactions. In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange or gives value to another entity without directly receiving approximately equal value in exchange.

An obligating event is an event that creates a legal or constructive obligation that results in an entity having no realistic alternative to settling that obligation.

Pensionable age is an age specified in legislation at which an individual becomes eligible for individual goods and services and cash transfers where that age is an eligibility criterion for entitlement.

Social benefits are cash transfers and goods and services provided in a non exchange transaction to protect the entire population, or individuals or individual households against certain social risks.

Social benefits other than aged pensions are social benefits where there is no eligibility criterion that the recipient has reached pensionable age.

A social risk is an event or circumstance that may adversely affect the welfare of households either by imposing additional demands on their resources or by reducing their incomes.

Terms defined in other International Public Sector Accounting Standards are used in this Standard with the same meaning as in those other Standards and are reproduced in the Glossary of Defined Terms published separately.

Goods and Services Encompassed by Social Benefits

10. Government social policies are developed to address and respond to certain social risks. In pursuit of these social policies, government and their entities provide goods and services to their citizens without approximately equal consideration in exchange. Such transactions are non-exchange transactions. Goods and services may be provided for collective consumption or for consumption by individuals or households. Government and their entities also provide social benefits in the form of cash transfers. These goods and services and cash transfers are generally termed social benefits.

Collective Good and Services

11. Collective goods and services are provided simultaneously to all members of the community or to all members of a particular section of the community, such as all households living in a particular region. Such goods and services differ from individual goods and services and cash transfers in that they are automatically acquired and consumed by all members of the community, or group of households in question, without any action on their part. By their nature, collective services cannot be sold to individuals in the market place. Examples include:

(a) national defense;

(b) the conduct of international relations;

(c) public order and safety (including police services, fire protection services, law courts and prisons);

(d) the efficient operation of the social and economic system of a country; and

(e) the formulation and administration of government policy, setting and enforcement of standards, regulation and licensing of personnel and institutions, and applied research and experimental development.

Individual Goods and Services

12. Governments provide a range of goods and services for individual consumption. Such goods and services are provided to an individual or individual household and are used to satisfy the needs and wants of that individual or members of that household. Unlike collective goods and services, individual goods and services can be bought and sold in the market place. However, in many cases, there is no requirement for the beneficiaries of these goods and services to pay an amount equivalent to the fair value of the services provided. Goods and services provided for individual consumption include :

(a) health services,

(b) educational services,

(c) housing services,

(d) transport services; and

(e) social services to the community.

13. The provision of individual goods and services is often intended to contribute to the collective welfare by, for example, creating a workforce that is better educated or technically competent in certain areas, or a population that is in better health. However, individual goods and services are provided in the first instance for consumption by individuals or individual households. Unlike collective goods and services, individual goods and services are subject to the satisfaction of eligibility criteria. Some eligibility criteria may need to be revalidated at regular intervals -for example, where the provision of medical services is only available to those with incomes below a specified level. Individual goods and services can be provided in a number of ways. For example methods to provide free or subsidized health and educational goods and services to individuals include:

a) The direct provision of the goods and services. Governments may deliver services directly themselves, for example, in government controlled schools or hospitals.

b) Paying another organization to deliver goods and services to individuals. For example, a government may pay a private hospital a set fee per service, such as for performing an operation on an individual. Normally such arrangements will require the hospital to meet certain criteria specified by the government. Governments may also pay private sector providers of educational services a subsidy for each student. Frequently upper limits are set on the amount that the government will pay under such arrangements.

c) The reimbursement of households and individuals for certain types of expenditure. Rather than providing free or subsidized goods or services at the point of purchase or consumption, a government may require individuals to purchase the goods and services and then apply for reimbursement. For example, individuals attending a doctor's surgery may be required to pay a standard fee, which a government will reimburse in full for certain individuals or a government may reimburse individuals with disabilities for the cost of certain home services when proof of receipt of those services is provided; and

d) Providing individuals with vouchers that can be redeemed for goods and services. For example, some jurisdictions provide individuals with vouchers that entitle them to free education at one of a selected number of schools. The school then redeems the voucher with the government.

14. A key characteristic of individual goods and services is that the economic benefits transferred must be used for the purposes specified by the transferor. They therefore differ from cash transfers to individuals where the individual has discretion over the purposes for which the resources may be used (see below paragraphs 15-17). Where the resources embodied in individual goods and services involve the transfer of cash as at paragraph 13(c) this is a specific reimbursement.

Cash Transfers

15. In many instances governments and their entities will provide individual benefits in the form of cash transfers to address social risks facing individuals and/or their households. Such benefits include:

a) child benefits

b) invalidity and sickness benefits

c) unemployment benefits

d) income supplements; and

e) housing benefits (where paid to the applicant rather than directly to the landlord)

16. The key characteristic of cash transfers- and the fundamental difference from individual goods and services- is that the purposes for which the cash transferred may be used is at the discretion of the recipient. If a recipient has to validate that the cash has been used for a specified purpose the transaction is a reimbursement rather than a cash transfer and is to be treated as an individual good or service.

17. On occasions cash transfers will be made to beneficiaries as reductions in the amount of income tax that they have to pay. If such transactions are available to individuals regardless of whether they pay taxes they are “tax expenses” and fall within the definition of a cash transfer. “Tax expenses” are to be distinguished from ”tax expenditures” “Tax expenditures” arise from preferential provisions of the tax law that provide taxpayers with concessions that are not available to others. “Tax expenditures” are foregone revenue; consequently they are not expenses incurred by the entity and are not within the definition of a cash transfer. ED xx, *Revenue from Non-Exchange Transactions (Comprising Taxes and Transfers)* provides additional commentary on tax expenses and tax expenditures.

18. There may be instances where a particular program includes both cash transfers and individual goods and services. An example is a

housing support program where rental allowances for the tenants of private landlords are paid to recipients in cash, whereas rental allowances to recipients who are tenants of public housing authorities are paid directly to the housing authority. In such cases resource outflows under the program may be differentiated between cash transfers and individual goods and services.

Aged pensions

19. Many jurisdictions provide citizens with cash transfers once they have reached a specified age as laid down in legislation, referred to in this Standard as the pensionable age. The arrangements for payment of such transfers vary widely across the world as do the terms used to describe them. However, such transfers generally have the common aim of protecting individuals over a specified age from the risk of poverty. As well as cash transfers many jurisdictions also provide individual goods and services to individuals who have reached the specified pensionable age, for example vouchers which can be used to meet all or part of utility bills. The term "aged pension" includes both cash transfers and individual goods and services where an eligibility criterion is that the individual has reached pensionable age.

20. As noted in paragraph 4, the term "pension" can also be used in the context of cash transfers where the eligibility criteria do not include a requirement that pensionable age has been reached. The term "aged pension" does not include such cash transfers.

Obligating Events and Present Obligations

21. The existence of a present obligation as a result of a past event is the threshold condition for recognition of a liability. For an event to be an obligating event, it is necessary that the entity has no realistic alternative other than to settle the obligation created by the event. An obligating event may give rise to a legal or constructive obligation.

22. An obligation always involves another party to whom the obligation is owed. In many commercial contracts both parties will know to whom the obligation is owed. However, specific identification of the other party is not necessary for the establishment of an obligation. The obligation arising from a governmental social policy will often be to a

large number of citizens in the case of individual goods and services and cash transfers.

Legal Obligations and Constructive Obligations

23. A legal obligation exists when a party has a legal or otherwise enforceable right to obtain judgment through a court of competent jurisdiction to enforce payment, performance or compensation. A determination of whether a particular transaction or event would give rise to a legal obligation must ultimately be made by a court or other quasi-judicial mechanism. A legal obligation exists when it is clear from legislation or previous examples of legal action that, if the issue were taken to court, the issue would be decided in the applicant's favor. This may be the case for a number of cash transfers where the particular circumstances of an applicant's eligibility may not have been tested in court, but the experience of similar previous cases may suggest that an obligating event has occurred.

24. Legal obligations often arise as a result of contractual obligations. A contract is an agreement with specific terms between two or more persons or entities in which one agrees to provide goods or services or to take certain actions in return for valuable consideration, including where the consideration provided by one party is not of approximately equal value to the value of the benefits conferred by the other party to the contract. In some cases, the consideration may be nominal in relation to the benefits conferred (for example, a small monetary consideration may be provided merely to give the transaction the form of a contract).

25. In some jurisdictions, a government's delivery of social benefits to constituents may be referred to as a "social contract". The use of the term "social contract" does not establish a legally enforceable agreement with specific terms as in paragraph 24.

26. Future obligations can be distinguished from present obligations. A government's implicit or explicit agreement to provide social benefits in future periods does not constitute a legal contract and does not give rise to a present obligation.

27. Constructive obligations are broader than legal obligations. Constructive obligations encompass obligations that a government has a "moral" duty to honor because it has led individuals or entities to believe that it will settle such obligations and has no realistic alternative but to do so.

28. An obligation always involves a commitment to another party. Therefore it follows that a decision by a government or government entity's management, governing body or controlling entity does not give rise to a constructive obligation at the reporting date unless the decision has been communicated before the reporting date to those affected by it in a manner sufficiently specific to raise a valid expectation in them that the entity will discharge its responsibilities. General political commitments or statements of policy intention do not give rise to present obligations, because these statements are not sufficiently specific and therefore the entity does have a realistic alternative to settling an obligation.

Contingent Liabilities

29. Contingent liabilities include possible obligations where the existence of the obligating event may be confirmed only in the future. An example may be where a group of individuals have applied for a cash transfer, but where their eligibility is uncertain until the outcome of a legal case is known.

Initial Recognition

Liabilities

30. **A liability in respect of a social benefit shall be recognized when:**

(a) An entity has a present obligation (legal or constructive) tp provide a social benefit as a result of a past event;

(b) It is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and

(c) A reliable estimate can be made of the amount of the obligation.

If these conditions are not met no liability shall be recognized.

Present Obligation

Past Events

31. This Standard requires that when a present obligation arises in respect of a social benefit and that present obligation satisfies recognition criteria it will be recognized as a liability. A present obligation arises as a result of a past event, which is an “obligating event”.

32. Present obligations for social benefits may arise from legal obligations and constructive obligations. Subject to meeting criteria relating to the probability of an outflow of resources and the reliability of measurement, legal obligations are recognized when a present obligation enforceable through the legal system or other binding process arises, and the obligation meets the recognition criteria. This is often the point at which the obligation is due to be paid.

33. However, there may be cases where a constructive obligation may arise at an earlier point than a legal obligation. Where a matter is subject to court judgment or other binding process and the outcome is uncertain, there may be a contingent liability rather than a provision.

34. In some cases the sovereign powers of government mean that steps can be taken to avoid or substantially limit obligations. Globally many governments have powers to effect legislative change retrospectively. However, notwithstanding the existence of such powers, assessments of whether a government or entity has no realistic alternative but to settle are made within the framework of existing legislation, although that framework can change in the future. This Standard takes the view that the preparers of financial statements do not pre-empt that such changes will occur or speculate on what any such changes might be.

35. A liability is not recognized for costs that need to be incurred to continue an entity’s activities in the future. These costs will be recognized in the future when the obligating event occurs and the

recognition criteria are satisfied. They may include costs associated with service delivery such as salary costs and rents and the depreciation of capital equipment.

Probable Outflow of Resources Embodying Economic Benefits or Service Potential

36. For a liability to be recognized an outflow of resources embodying economic benefits or service potential must be probable. There may be instances where a present obligation arises from a legal or constructive obligation, but it is deemed that an outflow of economic benefits and service potential is not probable. In such cases an entity discloses a contingent liability, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

Reliable Estimates

37. There may be cases where, although a liability exists, no reliable estimate can be made of the amount. In the context of the requirements of this Standard in relation to social benefits such instances are likely to be extremely rare. Where no reliable estimate can be made a liability exists that cannot be recognized. That liability is disclosed as a contingent liability (see paragraph 58)

Collective Goods and Services

38. A present obligation for the provision of collective goods and services arises only to the provided of the goods and services when the goods or services are delivered and not before such delivery.

39. This Standard specifies that a present obligation for collective goods and services arises only when the goods and services provided or the goods used in the provision of those services are delivered to the government. That present obligation is only to the provider of the goods and services and not to the population or particular segment of the population. Therefore a liability will not be recognized for

collective goods and services to be provided in future periods. There are likely to be expectations that the state will continue with many activities involving the provision of collective goods and services into the foreseeable future. Indeed a failure to maintain activity in a number of areas may jeopardize the continued existence of the state. However, the expectation that goods or services will be provided in the future does not give rise to a present obligation arising from a past event that results in the government having no realistic alternative but to settle. Therefore a liability in respect of the future costs of maintaining activity in these areas is not recognized.

40. An entity may have contracts with third parties for the supply of goods and services needed to provide collective good and services on an ongoing basis, including into the future. When the goods or services are provided a present obligation will arise in respect of the provider – the past event that gives rise to the present obligation is the provision of goods and services. Expenses and liabilities in relation to such contractual arrangements to supply goods and services will be recognized as for other executory contracts in accordance with IPSAS 19, "*Provisions, Contingent Liabilities and Contingent Assets.* Similarly, contingent liabilities associated with agreements with suppliers are disclosed in accordance with IPSAS 19.

41. If collective services are provided directly by government entities using the government's employees, present obligations arise as a result of contracts with those employees. The entity accounts for such transactions in the same way as for other employment contracts. The fact that the reporting entity has entered into employment contracts with employees involved in the provision of collective and individual goods and services for future periods does not create a present obligation in relation to citizens prior to delivery of those services. Rather, a present obligation to employees arises as those employees provide the services in accordance with those employment contracts.

Individual Goods and Services and Cash Transfers

42. A present obligation for individual goods and services and cash transfers arises when eligibility criteria have been satisfied. When a present obligation arises it shall be recognized as a liability in accordance with the requirements of paragraph 30.

43. This Standard requires an entity to recognize a liability for individual goods and services and cash transfers when an individual satisfies all eligibility criteria.

44. This is because where eligibility criteria have been satisfied an entity may have no realistic alternative but to settle its obligations for a transfer of resources until the eligibility criteria have to be next validated. Whilst, governments and other public sector entities can modify eligibility criteria it is unlikely that such changes will be retrospective. The government may therefore have no realistic alternative but to provide to eligible recipients individual goods and services and cash transfers to which they are presently entitled as a consequence of satisfying those eligibility criteria.

45. Eligibility criteria include both those laid down explicitly in governing legislation, regulations and authorities and the additional implicit criterion that applicants must stay alive in order to receive individual goods and services and cash transfers. For all individual goods and services and cash transfers "staying/being alive" is an additional implicit eligibility criterion that must be satisfied before a present obligation arises.

Individual Goods and Services

46. For individual goods and services the way in which the implicit eligibility criterion of "staying alive" operates will depend upon the character of the program, the nature of the goods and services and the ability of relatives and the estate of the recipient to benefit from the resources.

47. In most cases there is no obligation on the entity providing individual goods and services to sacrifice resources prior to delivery of those goods and services to the individual or individual household that has satisfied the explicit eligibility criteria. For example, an individual who has satisfied the explicit eligibility criteria for medical treatment has still to remain alive and be present at the relevant service delivery point, such as a hospital, in order to benefit from that medical treatment. If the individual were to die prior to entering hospital for the medical treatment the individual is very unlikely to be able to transfer that entitlement to medical treatment to his/her relatives or estate and no present obligation leading to the recognition of a liability on the part of government would arise.

48. There may be a limited number of cases where an individual satisfies the implicit eligibility criterion of staying alive at the same time that the explicit eligibility criteria are satisfied. In such cases there may be a present obligation leading to the recognition of a liability on the part of government even though that recipient dies before the goods and services to which eligibility has been established, have been delivered. For example, an individual may have established entitlement to a plot of land as part of a land transfer program. Even though that plot of land has not been transferred at the time of that individual's death the terms of the program may allow the deceased's relatives or estate to assume legal title of the land, provided that the beneficiary has satisfied the explicit eligibility criteria.

49. Where an individual purchases goods and services and seeks reimbursement from a public sector entity a present obligation will arise at the point at which the goods and services are provided to the individual, provided it can be demonstrated that the individual had a prior authorization to purchase the goods and services and had met all explicit eligibility criteria and the entity providing the reimbursement has sufficient information to measure the amount outstanding reliably. Under such circumstances the individual is, in substance, acting as an agent of the public sector entity and is incurring expenditure on behalf of that entity.

Cash Transfers

50. The present obligation in relation to cash transfers is for amounts to which explicit and implicit eligibility criteria have been satisfied. This will be for amounts "due and payable" to the reporting date. There my be rare circumstances where, under the legislation or regulations governing a cash transfer program, the relatives or estate of a beneficiary may be entitled to amounts payable up to the next date at which the explicit eligibility criteria have to be validated even though the beneficiary may have died prior to that revalidation point. In such cases the present obligation will be up to that revalidation point.

Contingent Liabilities

51. An entity shall not recognize a contingent liability in respect of social benefits.

Measurement

52. **The amount recognized as a liability shall be the best estimate of the expenditure required to settle the present obligation at the reporting date.**

53. Under the requirements of this Standard there are limited circumstances in which liabilities can arise. The best estimate of the expenditure required to settle the present obligation is the amount that an entity would rationally pay to settle the obligation at the reporting date or to transfer it to a third party at that time. The estimates of outcome and financial effect are determined by the judgment of the management of the entity, supplemented by experience of similar transactions and, in some cases, reports from independent experts. The evidence considered includes any additional evidence provided by events after the reporting date.

Individual Goods and Services

54. A liability in respect of individual goods and services is recognized in the circumstances where a present obligation arises as outlined in paragraph 48, where a program requires the transfer of resources to the relatives or estate of a beneficiary even though the individual is no longer alive. It is for entities to determine the best estimate of the amount required to settle the present obligation at the reporting date. The amount recognized as a liability will depend upon whether the transferring entity already controls the asset or whether it has to acquire the asset for transfer. In the former case the amount required to settle the present obligation at the reporting date will be the carrying value of the asset. In the latter case the amount required to settle the present obligation at the reporting date will be the fair value of the asset that has to be acquired. This Standard does not provide an exhaustive analysis of all the potential amounts at which a liability in relation to present obligations in respect of individual goods and services might be measured.

Cash Transfers

55. A liability is recognized in respect of cash transfers to which the recipient is currently entitled as a consequence of satisfaction of the eligibility criteria where those benefits are due and payable. The present obligation is for the benefits to be provided to the individual until the reporting date, unless, in accordance with paragraph 48, the regulations governing the program allow the estate or relative of a recipient who dies between the reporting date and the date at which eligibility has next to be revalidated to benefit from the cash transfer up to the date of formal revalidation. In that case the liability will be for the full amount payable up to the next validation point.

Presentation and Disclosures

56. Liabilities arising from social benefits (excluding the aged pension) shall be presented as a separate line item on the face of the Statement of Financial Position.

57. This Standard requires public sector entities to present the aggregate of liabilities related to social benefits (excluding pension arrangements) as a line item on the face of the Statement of Financial Position. Additional line items related to liabilities arising from social benefits may be presented.

58. **Unless the possibility of any outflow in settlement is remote, an entity should disclose a brief description of the nature of the contingent liability, and, where practicable:**

    (a) An estimate of its financial effect, measured under paragraphs 52-55; and

    (b) An indication of the uncertainties relating to the amount or timing of any outflow; and

    (c) The possibility of any reimbursement.

59. This Standard requires entities to disclose all contingent liabilities relating to social benefits. For the purposes of the disclosures required by paragraph 58 this may be as one class. This is because the limited circumstances under which contingent liabilities are likely to arise do not justify the disaggregation of information on contingent liabilities.

60. There are no obligating events in respect of collective goods and services until the goods and services are delivered, and then only to the service provider or deliverer of goods to be used in the provision of collective services. Therefore an entity does not disclose the existence of a contingent liability in respect of collective goods and services.

61. For individuals goods and services a contingent liability will be disclosed where large number of individuals have applied for a program, which allows an applicant's relatives or estate to benefit from the transfer of resources in the event of the applicant's death, where, due to ambiguity over interpretation of the rules governing the program, there is uncertainty over whether one or more of the eligibility criteria has been met. This may have led to a legal action

that should result in a clarification of the nature and extent of any liability. If the results of this legal action will not be known until after the reporting date then a contingent liability will be disclosed unless the possibility of a judgment inimical to the entity is remote. Such a disclosure includes, where feasible, an estimate of the financial implications in the event of the court deciding that the eligibility criterion/criteria have been satisfied. The public sector entity also discloses the possibility of any reimbursement, for example a reimbursement from another tier of government.

62. For cash transfers a contingent liability will be disclosed where a large number of individuals have applied for a program, such as income support, but, due to ambiguity over interpretation of the rules governing the program, there is uncertainty over whether one or more of the eligibility criteria have been met. This may have led to a legal action that should result in a clarification of the nature and extent of any liability. If the results of this legal action will not be known until after the reporting date then a contingent liability will be disclosed unless the possibility of a judgment inimical to the entity is remote. Such a disclosure includes, where feasible, an estimate of the financial implications in the event of the court deciding that the key eligibility criterion has been satisfied

Effective Date

63. **This International Public Sector Accounting Standard becomes effective for annual financial statements covering periods beginning on or after XX Month Year. Earlier application is encouraged.**

64. When an entity adopts the accrual basis of accounting as defined by International Public Sector Accounting Standards for financial reporting purposes subsequent to this effective date, this Standard applies to the entity’s annual financial statements covering periods beginning on or after the date of adoption.

Appendix A

Amendments to Other IPSASs

(a) In IPSAS 19, "Provisions, Contingent Liabilities and Contingent Assets" paragraph 99 is deleted.

Implementation Guidance

Accounting for Social Policies of Government — Examples

This guidance accompanies, but is not part of, proposed IPSAS XX.”.

Example 1: Collective Goods and Services: General Commitments

IG1 A government operates a national police service. The government has publicly stated its intention to increase current police numbers from current levels over the next two years.

Analysis

Present obligation as a result of a past obligating event —

IG2 There is no present obligation to provide policing services in future periods, regardless of whether statements have been made of intentions to increase police numbers, reduce them or maintain them at current levels. This is because such statements do not leave the government without a realistic alternative to settling the obligation created by the announcement. General statements of intent are not therefore obligating events. A present obligation to police employees arises as those employees provide policing services in accordance with their employment contracts.

Example 2: Individual Goods and Services: Free Health Care-Universal to Residents

IG3 Under legislation, a government is required to provide free health care services to all citizens who satisfy residential eligibility criteria. Health care is provided by a combination of government operated hospitals and clinics and healthcare institutions operated by both for-profit and not-for-profit entities.

Analysis

IG4 **Present obligation as a result of a past obligating event —** There is no present obligation to provide healthcare services in future periods. The government accounts for any exchange contracts with for profit and not-for-profit hospitals entered into in order to provide these services in accordance with generally accepted accounting practice. Exchange contracts could include the employment of doctors, nurses, paramedical staff and healthcare administrators, services provided by not-for-profit hospitals, purchases from medical suppliers and agreements with construction firms for the construction of new healthcare facilities.

Example 3: Individual Goods and Services: Free Health Care to Low Income Individuals

IG5 Under healthcare legislation a government provides specified healthcare services free to both adults and children under 18 years of age of families where the individual income is less than 300 currency units. Individuals wishing to obtain free healthcare services have to apply to the government's Department of Health providing evidence that their monthly income is less than 300 currency units. When their applications have been validated they are eligible for free healthcare services for a 6 month period, after which time their eligibility has to be revalidated. The government arranges for the healthcare services to be provided through clinics and hospitals operated by non-for-profit foundations.

Analysis

IG6 **Present obligation as a result of a past obligating event —** The present obligation to eligible individuals arises as the individuals satisfy the implicit eligibility criterion of "saying alive" to receive the medical treatment and hospitals and clinics deliver that medical treatment. There is no present obligation to those who have had their eligibility confirmed, regardless of the fact that some individuals' explicit eligibility continues into the next accounting period.

Example 4a: Child Benefits (eligibility to be reconfirmed)

IG 7 Government A has legislation that specifies the eligibility criteria for child benefits. The parents of each eligible child receive 200 currency units each month from the government. The eligibility criteria are:

- the child is a resident of the country; and
- the child is aged 16 years or under.

IG 8 Entitlement commences when an application has been received and approved. No payments are made for periods prior to the date on which eligibility has been confirmed. Payments are made in the middle of each month. Entitlement ends at the end of the month that the child ceases to satisfy eligibility criteria (for example, the child reaches 16 years of age or the child ceases to be a resident). Parents are expected to notify the government immediately that eligibility ceases. Parents are required to sign a declaration at the end of the year stating that the child satisfies the eligibility criteria. This validates eligibility for a 12 month prospective period provided that the child remains alive for that period. Any payments received in respect of periods that the child does not satisfy eligibility criteria must be repaid to the government.

IG 9 At year-end, 4,000 babies have met the eligibility criteria and had applications approved but have not yet received the first instalment of benefit. The average amount owed is one month's entitlement.

IG 10 At the reporting date, 10,000 children in total (including the 4,000 babies newly eligible) have validated their eligibility for entitlement to child benefits for the next 12 month period. It is expected that 1,000 babies will be born in the year following the reporting date.

Analysis

IG 11 **Present obligation as a result of a past obligating event** — A present obligation arises when children meet both the explicit eligibility criteria and the implicit eligibility criterion of staying alive. There is a present obligation in respect of the amounts due and payable for the 4,000 babies who have recently validated eligibility and for whom the first instalment is outstanding. There is not a present obligation at the reporting date in respect of all 10,000 children who have validated entitlement at the reporting date, because they have not satisfied the implicit eligibility criterion of remaining alive beyond the reporting date and there is therefore no obligation on the government to sacrifice resources. In addition there is no present obligation in respect of the 1,000 babies expected to be born in the year following the reporting date.

IG 12 **An outflow of resources embodying economic benefits or service potential in settlement** — Probable in respect of the 4,000 babies.

IG 13 **Recognition** — A liability is recognized in respect of the present obligations for the amounts due and payable for the 4,000 babies who have recently asserted eligibility.

IG 14 **Measurement** — The 200 currency units payable in respect of each eligible child would be expensed each month as the payments are made. At year-end, the government recognizes a liability of 800,000 currency units for the amounts due and payable for the 4,000 babies who have recently had applications approved (4,000 x 200). Because there is an implicit eligibility criterion that babies stay alive and the program regulations do not allow relatives of babies who die between the reporting date and the date at which eligibility has next to be revalidated to benefit from the cash transfer no liability is recognized beyond the reporting date.

Example 4b: Child Benefits (eligibility confirmed only once)

IG 15 Government B has legislation that specifies the eligibility criteria for child benefits. The parents of each eligible child receive 200 currency units at the end of each month from the government if their children meet eligibility criteria. The explicit eligibility criteria are that:

- the child is a resident of the country; and
- the child is aged 16 years or under.

IG 16 Entitlement is backdated to the date of a child's birth. However, backdating is only permissible to the beginning of the financial year (i.e. 1 January). Payment is either made to a nominated bank account or in person at a government office. Entitlement stops at the end of the month that the child ceases to satisfy eligibility criteria (for example, the child reaches 16 years of age or the child ceases to be a resident). Parents are expected to notify the government immediately that eligibility ceases. Once initial eligibility is confirmed there are no further explicit validation checks. Payment is automatically discontinued in the month following that on which a child has reached 16 years of age.

IG 17 At year end, 15,000 children were eligible for child benefit. A further 1,000 had confirmed their eligibility but payments had not been processed. That average outstanding entitlement for these babies was three months A further 1,100 babies are expected to be born in the financial year following the reporting period.

IG 18 **Present obligation as a result of a past obligating event** — A present obligation exists only when children meet both explicit eligibility criteria and the implicit eligibility criterion of staying alive. Therefore there is a present obligation for the 1,000 children who have confirmed their eligibility but have not received benefit. Notwithstanding the fact that they have satisfied explicit eligibility criteria, there is no present obligation in respect of the other 15,000 children for whom all payments due at the reporting date have been paid, as they have not satisfied the implicit eligibility criterion of staying alive beyond the reporting date. There is no present obligation in respect of the 1,100 babies expected to be born in the year following the reporting date.

IG 19 **An outflow of resources embodying economic benefits or service potential in settlement** — Probable in respect of the 1,000 children who have confirmed eligibility, but for whom payment has not been made at the reporting date.

IG 20 **Recognition**— A liability is recognized for the amount of unpaid benefit relating to the 1,000 babies whose eligibility has been confirmed but for whom payment is outstanding.

IG 21 **Measurement**—The 200 currency units payable in respect of each eligible child is expensed each month as the payments are made At year end, the government recognizes a liability of 600,000 currency units for unpaid benefit in respect of the 1,000 babies whose eligibility has been confirmed but whose payment is outstanding.

Example 5: Cash Transfer: Unemployment Benefits

IG 22 A government agency provides support through unemployment benefits to people who are unable to find paid employment. To receive an unemployment benefit, a claimant has to demonstrate that he or she meets the entitlement criteria when making a claim.

IG 23 Unemployment benefit will be paid if the claimant is:

- aged over18, but under pensionable age for a basic state pension;
- available for work; and
- actively seeking work — the government agency has the discretion to terminate the benefit if an individual rejects more than 3 offers of work. This discretion has been rarely exercised in the past

IG 24 Unemployment benefit is paid to eligible claimants at a two-weekly interval. Individuals have to reassert eligibility for the benefit each month by appearing at one of the agency's offices. Entitlement ceases immediately if the criteria are breached.

IG 25 The benefit is 400 currency units per four weeks. The final payment occurs on the reporting date. The benefit is payable from date of approval of an application. As at reporting date, there are 100 individuals whose applications have been approved but whose payments have been delayed because they were not entered into the payment system in time for the December 31 payment. These individuals are owed, on average, one week's benefit.

Analysis

IG 26 **Present obligation as a result of a past obligating event** — A present obligation exists only when an individual meets all explicit eligibility criteria required to qualify for an unemployment benefit and the further implicit eligibility criterion of staying alive. The individual must continue to meet eligibility criteria on an ongoing basis.

IG 27 **An outflow of resources embodying economic benefits or service potential in settlement** — Probable.

IG 28 **Recognition** — 400 currency units per successful applicant is expensed every four weeks as the government credits the recipients' bank accounts. The government records a liability for any amounts due and payable at year-end to individuals who have confirmed eligibility but whose payments have not been processed.

IG 29 **Measurement** — At year-end, the government would recognize a liability of 10,000 currency units (100 individuals × 100 currency units).

Example 7: Disaster Relief – Collective Services to be provided & clarity over details of provision

IG 30 On December 10, 200X, a massive earthquake struck Country A. On December 14, 200X the national government made a public commitment to participate in a multi-national relief initiative and pledged to provide policing services, by sending 100 officers for a 2 month period, and to also provide specified medical supplies. This commitment was communicated to a major supra-national organization and a number of governments, which have also agreed to assist in the effort. The government made a similar commitment following a disaster in Country B, a neighbour of Country A, two years earlier and honored the commitment. A separate contingency fund exists for such purposes and no further budgetary authorisation is required to allow the government to access these funds. The total cost of the policing component of the commitment, including transportation, is estimated to be 10 million currency units and the cost of the medical supplies is estimated to be 5 million currency units. At the reporting date of 31 December only 3 million currency units had been spent.

Analysis

IG 31 **Present obligation as a result of a past obligating event** — Regardless of the public commitment, its communication to very significant multi-national partner organizations and the previous honouring of similar commitments there is no obligating event prior to provision of the policing services and delivery of the medial supplies. This is because the government can realistically avoid any sacrifice of resources until the policing services and medical supplies are delivered. A present obligation to the suppliers of the medical supplies arises when those supplies are delivered to the national government

EXAMPLE 8: INDIVIDUAL GOODS AND SERVICES: LEGAL AID

IG 32 A government provides legal aid to individuals whose income in the previous financial year was below a specified annual amount. Legal aid is provided by law firms with which the government has long-term contracts rather than the government's own employees. The government's legal aid program is highly detailed and well-documented and legal aid has been consistently provided in conformity with it for over 20 years. All individuals charged with a criminal offence are advised of their right to request legal aid. At the reporting date 1500 individuals had had applications for legal aid approved. Estimates of the cost of legal representation are based on a standard costing model that stratifies offences according to the nature of the offence and duration of trials. Past experience has suggested that the estimates provided by this model are robust. The estimated cost of providing legal services for the 1,500 cases is 5 million currency units.

Analysis

IG 33 **Present obligation as a result of a past obligating event** — The present obligation arises when the individuals have met all eligibility criteria, including the implicit eligibility criterion of staying alive. Therefore, there is no present obligation to the applicants until the legal services are delivered. There is no present obligation to those who have had their eligibility confirmed but have yet to receive legal services.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, the proposed IPSAS XX."

Introduction

BC1 This Basis for Conclusions summarizes the International Public Sector Accounting Standards Board's (IPSASB) considerations in reaching the conclusions in ED XX, *Accounting for the Social Policies of Government (excluding Pension Arrangements).* Individual members of the IPSASB gave greater weight to some factors than to others. In forming their views the IPSASB members considered in depth the views expressed by the Steering Committee on Social Policy Obligations in the Invitation to Comment (ITC), *Accounting for the Social Policies of Governments,* issued in January 2004 and to the views expressed by constituents who responded to the consultation on that ITC.

BC2 All governments and many public sector entities provide social benefits in non-exchange transactions. For many public sector entities expenditure on social benefits constitutes the majority of outflows of economic benefits and service potential. There are no authoritative international requirements or guidance on accounting for obligations arising from governmental social policies and different approaches have been adopted. The Public Sector Committee (PSC, the predecessor to IPSASB) approved IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets* in October 2002. However, provisions and contingent liabilities arising from social benefits provided in non-exchange transactions were scoped out of that Standard.

BC3 For jurisdictions currently reporting on the full accrual basis the most common practice is for resources used in the provision of most social benefits to be expensed as goods and services are delivered. Most jurisdictions currently recognize as liabilities only those social benefits that are provided by cash transfer and that are legally overdue for payment. A minority of jurisdictions may also recognize the portion of periodic cash transfers that has accrued since the previous payment. Because of their significance to the financial performance of a large number of public sector entities the IPSASB considers that it is essential to develop well understood, generally agreed methods of accounting for social policy obligations, supported by sound conceptual arguments.

Conceptual Underpinnings

BC4 Social benefits were scoped out of IPSAS 19 to allow further consideration to be given to the topic. Subsequently the PSC established a Steering Committee comprising both PSC members and individuals from outside the Committee. The IPSASB accepted the Steering Committee recommendation that the conceptual approach and definitions in IPSAS 19 could be applied in determining when obligations arise from social policies in a non-exchange context. The IPSASB also noted that this approach had received strong support from respondents to the ITC.

BC5 The IPSASB acknowledges that the concept of a constructive obligation is difficult to apply in the public sector and noted arguments that, in relation to non-exchange transactions, only legal obligations can give rise to present obligations. However, it is of the view that constructive obligations are an essential part of the conceptual framework for determining whether liabilities exist in relation to governmental social policies. The IPSASB therefore concluded that it should not preclude the possibility that a constructive obligation might give rise to a present obligation in advance of a legal obligation. Therefore the IPSASB decided that the concept of a constructive obligation should be retained as part of the conceptual framework for developing requirements for non-exchange transactions for governmental social policies. Consistent with this general approach the IPSASB is also of the view that the notion of a contingent liability and the approach to measurement from IPSAS 19 should be adopted in this Standard.

Scope

BC6 The original intention of the IPSASB was to include aged pensions and other benefits to citizens who have reached a pensionable age laid down in legislation and not related to an individual's employment as cash transfers and individual goods and services. They therefore would have been within the scope of this Standard. In substance the IPSASB initially assumed that goods and services and cash transfers where an explicit eligibility criterion is age were no different to other benefits with explicit eligibility criteria and that the same principles could be applied as for other individual goods and services. Such an approach would have been consistent with both the views of the Steering Committee and the majority of respondents to the ITC.

BC7 The IPSASB noted that in many countries the composite social security system provides pension benefits to all citizens or large groups of citizens, including government and other employees.; that is, the one system provides basic pension benefits for no or minimal consideration as well as benefits in exchange for consideration in the form of contributions by or on behalf of members. To enable further research on the key aspects of such systems, including the extent to which they might be within the scope of existing international or national standards, pensions were excluded from the scope of this Standard. The IPSASB intends to develop a separate Standard or Standards to deal with aged pensions and similar benefits, including pensions where the benefit payable is flat-rate or is dependent upon contributions, membership periods or linked in some way to remuneration levels as an employee. The IPSASB is aware that in some jurisdictions aged pensions are far less significant than other individual social benefits and cash transfers. It is anticipated that focusing on social benefits other than aged pensions will make this Standard more accessible and relevant across all jurisdictions that adopt the accrual basis of financial reporting.

BC8 The IPSASB also considered whether the scope should include all goods and services provided in non-exchange transactions on the basis that the accounting for goods and services or cash transfers in a non-exchange transaction is unlikely to be different dependent on whether they are provided as social benefits or not. However, it was decided to limit the scope to social benefits in order to ensure compatibility with IPSAS 19. In paragraph 1(a) of IPSAS 19 the scope exclusion for non-exchange transactions is limited to those arising from social benefits.

Definitions

BC9 The IPSASB considered whether the term “social benefits” should be defined. It noted the view of the Steering Committee that what constitutes social benefits varies from jurisdiction to jurisdiction and that this makes the adoption of an exhaustive definition problematic. The IPSASB also acknowledged the view of the Steering Committee that if items were not considered as a “social benefit” they would be dealt with under another International Public Sector Accounting Standard and that this reduces the consequences and risks of not defining the term. The IPSASB also noted that at consultation responses were almost evenly split as to whether a definition is necessary.

BC10 The IPSASB recognized the attraction of relying on a broad notion of social benefits. However, on balance, it was decided that the term should be defined. In reaching this conclusion the IPSASB felt that a convincing analysis of when a present obligation in relation to social benefits arises would be difficult unless the term is defined and disaggregated. As a starting point, the IPSASB took the definition used in the scope-out in IPSAS 19. The IPSASB agreed that any definition should be generic rather than a detailed list of which benefits fall in which category.

BC11 The IPSASB also noted the current definition of social benefits in statistical reporting bases including the Government Finance Statistics Manual 2001 (GFSM 2001), which itself is consistent with the System of National Accounts (SNA 1993). The IPSASB agreed with the view of the Steering Committee that, whilst this Standard should use terminology consistent with statistical reporting bases wherever possible, the definition of social benefits should be broader than that used in GFSM 2001. In this context, the IPSASB noted that GFSM 2001 explains that “there is no universally accepted definition of the scope of social benefits and the social risks covered are liable to vary from scheme to scheme and from government to government.”

BC12 The IPSASB therefore adopted a three-part definition of social benefits as:

- Goods and services provided for collective consumption
- Goods and services provided for individual consumption
- Cash transfers.

In the ED the short hand terms “collective goods and services” and “individual goods and services” are used.

BC13 This approach is consistent with convention and the analysis in the ITC. Each of these areas has distinguishing characteristics that are important in analyzing when present obligations arise. The main difference between collective and individual goods and services is that the former are indivisible benefits that cannot be split between different members of society and are consumed on an involuntary basis. It therefore follows that consumption of such goods and services is not dependent upon the satisfaction of eligibility criteria. Consumption of individual goods and services and entitlement to cash transfers are dependent upon the satisfaction of eligibility criteria. These may be of varying degrees of complexity and rigor. However, whereas for individual goods and services the transferor can stipulate the purposes to which the resources sacrificed must be applied, for cash transfers the recipient has discretion how to use those resources.

BC14 The IPSASB acknowledged that for individual goods and services there may be cases where the economic benefits are transferred to the recipient in the form of cash. However, such cash transfers are reimbursements. In common with other methods of providing individual goods and services the recipient does not have discretion as to how the resources are to be used. The expenditure relating to such reimbursements will often require prior authorization. Normally reimbursements will only be made after documented proof that the expenditure for which reimbursement is sought has been for purposes specified by the transferor. Such transactions are therefore in substance different to cash transfers.

BC15 The Board recognized that in some cases cash transfers will be made to beneficiaries as reductions in the amount of income tax for which they are liable. If such transactions are available to individuals regardless of whether they pay taxes they fall within the definition of a cash transfer and are to be recognized as if the payment had been made directly in cash to the recipient. In such cases the tax system is used for administrative purposes. However, if allowances are only available to individuals who incur tax liabilities they are tax expenditures- preferential provisions of the tax law that provide taxpayers with concessions that are not available to others- and are not social benefits. Consistent with the approach adopted in the ED, *Non-exchange Revenue (including Taxes and Transfers) and Contributions from Owners* tax expenditures are foregone revenue; consequently they are not expenses incurred by the entity. They are therefore outside the scope of this Standard. This treatment is also consistent with the requirements on offsetting in paragraphs 54 and 55 of IPSAS1, *Presentation of Financial Statements*

Present Obligations for Social Benefits

BC16 The definition of an obligating event requires that a government has no realistic alternative to settling the obligation. The Board acknowledged that, for social benefits, governments, because of their sovereign powers, have a number of realistic alternatives to providing goods and services in future periods and have considerable discretion to reduce the level of services, introduce alternative programs, which might have a considerable impact on demand, or even to cease to provide the service altogether. Nevertheless, financial reporting reflects the position at the reporting date based on known conditions; analysis of when a present obligation arises is within this context. For this reason the IPSASB concluded that it is inappropriate to rely on the sovereign powers of government to justify a widespread non-recognition of liabilities for legal obligations. The IPSASB also considers that there are general and inappropriate risks in accounts-preparers pre-empting legislative changes.

BC17 The Board therefore considered when a present obligation arises in respect of each of the three types of social benefits. For collective and individual goods and services the Board considered whether a present obligation might arise before the delivery of those services. The Board acknowledged that many citizens have a very strong expectation that their government will continue to provide collective goods and services into the future. Indeed a failure to maintain a basic defense capability, a minimum law enforcement capability and a core administrative apparatus might imperil the continued existence of government and state. However, whilst these are important considerations, they do not of themselves give rise to a present obligation for three main reasons.

BC18 First the provision of collective and individual goods and services is an ongoing activity of government. Consistent with IPSAS 19 an entity would not recognize estimates of future outflows of economic benefits and service potential projected to be necessary for it to remain as a going concern in the future. A present obligation arises as a consequence of a past event; the need to incur costs in the future does not qualify as a past event. For a government to do so would be akin to a manufacturing entity recognizing estimates of employee costs and the costs of raw materials for future accounting periods. Such outflows represent the cost of future obligations rather than present obligations.

BC19 Second, there may not be a present obligation, whether legal or constructive, to provide such services in the future. Notwithstanding the view of the IPSASB at BC 16 that an assessment of the existence of a present obligation is made in the context of the current legal framework, a current legal obligation should not be taken to convey a future legal obligation. Similarly while constructive obligations may occur less frequently, a current constructive obligation should not be taken to convey a future constructive obligation. In many cases a legal obligation only arises at the time that services are delivered. Whilst there will be expectations that a government will continue to provide collective goods and services, and citizens may have a valid expectation that such provision will occur, there is not a past event, which creates an obligation that an entity has no realistic alternative but to settle.

BC20 Third, particularly in relation to individual goods and services, whilst certain points in an individual's life such as birth, entry to primary education, entry to the workforce and marriage are valuable for forecasting future demand levels for certain social benefits they do not constitute obligating events. Consequently, they do not give rise to present obligations.

BC21 The IPSASB also considered whether the existence of contractual arrangements with employees and other third parties such as suppliers created an indirect and implicit commitment to citizens sufficient to give rise to a present obligation to citizens at a point when the contractual arrangements are entered into with third parties. The Board concluded that entry into such contractual arrangements was too remote to be deemed an obligating event in the context of the government's commitments to citizens.

BC22 For both collective and individual goods and services the IPSASB considered whether there may be limited cases where a constructive obligation gives rise to a present obligation prior to the delivery of services even though no legal obligation to deliver these services exists. The IPSASB explored a situation where a government has communicated publicly a commitment to a third party, which creates an expectation, and considered the view that the government cannot realistically avoid settlement. The IPSASB concluded that, until the delivery of the goods and services, it is open to the government to avoid a liability and, furthermore, that uncertainty about the exact amounts to be contributed can create problems in reliably measuring any potential outflow. For this reason the Standard does not include a rebuttable presumption that a present obligation in respect of collective goods and services does not arise prior to the delivery of the services.

BC23 The Board considered that a present obligation arises for cash transfers when an individual has satisfied all eligibility criteria, although the point at which the payment becomes legally due and enforceable may be at a point in the future. Once an individual has satisfied all eligibility criteria there is a genuine expectation that the cash transfer will be made and it is likely that a government will have no realistic alternative but to settle. In these cases, satisfaction of eligibility criteria establishes the present obligation. Eligibility criteria include both explicit criteria laid down in the legislation or regulations governing programs and the additional implicit criterion that an individual stays alive. The implications for measurement are considered at BC 25.

BC24 Recognizing that many individual goods and services also have eligibility criteria the Board gave particular consideration to the issue of whether the point at which an obligating event arises differs for individual goods and services and cash transfers. The IPSASB concluded that for individual goods and services the obligating event also arises when all eligibility criteria have been satisfied by the potential recipient. As for cash transfers eligibility criteria also include both formal criteria laid down in the legislation or regulations governing programs and the additional implicit criterion that an individual stays alive in order to receive the goods or services. If the individual dies prior to receipt of the goods and services there is unlikely to be a present obligation for the government or public sector entity. This is because, although the applicant has satisfied all explicit eligibility criteria, there is no obligation on the entity providing those goods and services to sacrifice resources prior to delivery of the goods or services. The rationale for this conclusion is demonstrated by examining the example of free medical care. An applicant may have satisfied all the eligibility criteria for a program supplying free medical care. However, the individual has still to present themselves at a hospital or other medical facility in order to receive the treatment and it is not until this point that the present obligation arises.

BC25 However, the IPSASB acknowledged that the Standard should not preclude the possibility there may be some cases where the legislation or regulations governing a program for individual goods and services may allow the relatives or estate of a beneficiary who has satisfied all explicit eligibility criteria to benefit from the transfer of resources, even though the beneficiary may have died after having satisfied those explicit eligibility criteria but before having received the resources. The example envisaged by the IPSASB is a land transfer program whereby the government provides an amount of land to applicants who have satisfied explicit criteria. In such instances it is feasible that the land will be transferable to the beneficiary's relatives or estate in the event of that individual's death. In such cases the implicit eligibility criterion of staying alive is satisfied at the point that all the explicit eligibility criteria have been satisfied.

Extent of Present Obligation and Measurement-Individual Goods and Services and Cash Transfers

BC26 Having concluded that, for individual goods and services and cash transfers, the obligating event occurs when all explicit and implicit eligibility criteria have been satisfied the IPSASB considered the extent of that present obligation and the implications for measurement. For most individual goods and services the requirement that individuals must satisfy both implicit and explicit eligibility criteria means that that a present obligation does not arise until the goods or services are provided. Therefore no liabilities can exist at the reporting date. However, in the circumstances described at paragraph BC 23 the IPSASB accepted that there may be limited cases where a present obligation may exist prior to delivery of the goods and services. The IPSASB concluded that, consistent with IPSAS 19, in such circumstances the liability is the best estimate of the amount required to settle the present obligation.

BC27 For those limited circumstances under which liabilities in relation to individual goods and services arise, the IPSASB considered how the best estimate of the amount required to settle the present obligation would be determined. The IPSASB did not consider that it is appropriate to produce detailed guidance on a range of assets that might be transferred on the few occasions that a present obligation exists at the reporting date. However, the IPSASB concluded that measurement will depend primarily on whether the transferring entity controls the asset which will be transferred or whether it has to acquire the asset. If the former the best estimate of the amount required to settle the present obligation is likely to be the carrying value of the asset at the time of transfer. If the asset has to be acquired the best estimate of the amount required to settle the present obligation is likely to be the fair value of the asset.

BC28 For cash transfers the conclusion that staying alive/ being alive is also an implicit eligibility criterion means that the liability will be limited to amounts “due and payable" at the reporting date. The IPSASB acknowledged that there may be limited cases where the legislation and regulations governing a cash transfer program allow the relatives or estate of a deceased applicant to benefit from transferred resources up until the next date of formal eligibility. In such cases the amount recognized will not just be amounts outstanding at the reporting date, but will extend to amounts payable up to the next revalidation point where that is beyond the reporting date.

.

Presentation and Disclosures

BC29 The IPSASB considered whether it should require disclosures in relation to liabilities for social benefits. The IPSASB agreed with the Steering Committee that the provision of further disclosures on the overall financial sustainability of governmental policy on social benefits is very important in enhancing the accountability of governments and their entities. However, in common with both the Steering Committee and respondents to the ITC the Board has strong reservations whether the general-purpose financial statements are the appropriate location for disclosures about the future viability of governmental programs. For this reason and, in view of the limited circumstances under which liabilities will be recognized and the generally small amounts of such liabilities, the IPSASB concluded that there is no case for mandating highly detailed disclosures.

BC30 However, the IPSASB concluded that the significance of social benefits for many public sector entities justifies the identification of liabilities relating to them as a separate line item on the statement of financial position. Therefore such a requirement has been included at paragraph 56. Entities are not precluded from a more detailed presentation if they consider it appropriate.

Transitional Provisions

BC31 The Board considered whether transitional arrangements are necessary and, if necessary, the appropriate extent of and duration of such arrangements. In evaluating these issues it was noted that, in many jurisdictions that are already reporting on the full accrual basis many of the treatments required by the Standard will involve very little or no change from current accounting policies. This is particularly the case for collective goods and services where, under the requirements of the Standard, liabilities will not arise and for individual goods and services where liabilities are only likely to arise in very limited circumstances.

BC32 The requirements in relation to cash transfers are also likely to involve very limited changes to existing practices. The decision that "staying alive" is an eligibility criterion means that liabilities recognized will be amounts "due and payable" at the reporting date. It was therefore decided that there is no justification for introducing transitional arrangements.