CIPFA The Chartered Institute of Public Finance & Accountancy

IPSASB Exposure Draft 63
Social Benefits

Response from the Chartered Institute of Public Finance and Accountancy (CIPFA)

29 March 2018

the people in public finance

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. CIPFA shows the way in public finance globally, standing up for sound public financial management and good governance around the world as the leading commentator on managing and accounting for public money.

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Exposure Draft 63, *Social Benefits*

CIPFA is pleased to present its comments on this Exposure Draft, which has been reviewed by CIPFA's Accounting and Auditing Standards Panel.

Main observations

CIPFA welcomes the publication of this ED which takes a further step in the development of IPSAS material setting out the appropriate accounting treatment for social benefits. As noted in CIPFA's response to the 2015 Consultation Paper, this is a key category of non-exchange transactions which differentiate the conduct of the public sector from profit seeking entities. It is also a crucial issue which needs to be addressed before IPSAS can be seen to cover all of the major aspects of public sector financial reporting.

CIPFA generally supports the suggestions in the Exposure Draft although there are some points on which we do not fully agree. Specifically:

- The Insurance Approach will apply to a limited number of social benefit schemes, and where the criteria in the ED apply, we agree that the insurance approach will faithfully represent the scheme. However, CIPFA suggests that the insurance approach should be mandatory in these cases.
- In respect of the Obligating Event Approach, CIPFA does not agree that the satisfaction by the beneficiary of all eligibility criteria for the next benefit, which includes being alive, will *always* accurately capture when a binding obligation first exists, and therefore, when a liability should first be recognised. However, we do support this as a pragmatic and operationalisable basis for a standard.
- Some further consideration of disclosures relating to Long Term Fiscal Sustainability may be appropriate, but CIPFA would not support the development of mandatory guidance to replace RPG 1.

Response to Specific Matters for Comment

Responses to the SMCs are attached as an Annex.

I hope this is a helpful contribution to IPSASB's work in this area.

Yours sincerely

Don Peebles
Head of CIPFA Policy & Technical UK

Specific Matter for Comment 1: Do you agree with the scope of this Exposure Draft, and specifically the exclusion of universally accessible services for the reasons given in paragraph BC21(c)? If not, what changes to the scope would you make?
CIPFA agrees with the scope of this ED, including the exclusion of universally accessible services. The recognition and measurement of liabilities and expenses associated with social risks necessarily requires consideration of the pattern of eligibility to receive social benefit. This is not relevant to universally accessible services, the treatment for which is being developed as part of IPSASB's project on non-exchange expense.
Specific Matter for Comment 2: Do you agree with the definitions of social benefits, social risks and universally accessible services that are included in this Exposure Draft? If not, what changes to the definitions would you make?
CIPFA agrees with the definitions proposed in the ED.

Specific Matter for Comment 3:

Do you agree that, with respect to the insurance approach:

(a) It should be optional;

(b) The criteria for determining whether the insurance approach may be applied are appropriate;

(c) Directing preparers to follow the relevant international or national accounting standard dealing with insurance contracts (IFRS 17, Insurance Contracts and national standards that have adopted substantially the same principles as IFRS 17) is appropriate; and

(d) The additional disclosures required by paragraph 12 of this Exposure Draft are appropriate?

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

CIPFA agrees that (b) the criteria are appropriate.

We would emphasise the need to apply the self-funding requirement rigorously, having regard to the circumstances of the scheme at the reporting date. There should be no suggestion that such a scheme should be guaranteed by government. Furthermore, if circumstances change and the requirements no longer apply, this should automatically trigger a change in reporting.

CIPFA also agrees that

(c) preparers should be directed to follow standards similar or equivalent to IFRS 17

(d) the disclosures required by paragraph 12 are appropriate.

However, CIPFA disagrees with the proposal in (a) that the use of the insurance approach should be optional.

Where the criteria are satisfied, providing information using the obligating event approach will be unlikely to faithfully represent the circumstances of the scheme.

We note that the IPSASB is aware of this issue, and sets out its arguments on pragmatic grounds at BC32-41. The Basis for Conclusions also indicates that this could be revisited at a future date. However, where the evidence requirement in paragraph 9(b) of the draft IPSAS is satisfied, it seems very unlikely that the entity will not have the information necessary to apply the insurance approach.

Specific Matter for Comment 4: Do you agree that, under the obligating event approach, the past event that gives rise to a liability for a social benefit scheme is the satisfaction by the beneficiary of all eligibility criteria for the next benefit, which includes being alive (whether this is explicitly stated or implicit in the scheme provisions)? If not, what past event should give rise to a liability for a social benefit? *This Exposure Draft includes an Alternative View where some IPSASB Members propose a different approach to recognition and measurement.*
The ED proposals require recognition in a situation where payment is virtually certain. CIPFA does not agree that this criterion will always accurately capture when a binding obligation first exists, and therefore, when a liability should first be recognised. As noted in CIPFA's 2015 response, different arrangements in different countries may give rise to initial recognition being appropriate at different stages, and this may not always be linked to when the next payment is due and payable: in some cases earlier recognition may be appropriate. The key point is when a binding obligation exists, whether 'legally binding' or 'non-legally binding'. CIPFA agrees with some of the argumentation in the ED which argues against earlier recognition. For example we agree that binding obligations will not normally arise from the promises of politicians, and do not in themselves arise from the expectations of individuals, for example, based on the fact that a contribution has been made. However, in CIPFA's view, societal expectations in a country or jurisdiction can have a role, and can drive the behaviour of governments in the short to medium term. The nature of societal expectations, and the extent to which they affect government behaviour is contextual. It differs markedly between countries, and it can change over time. Additionally, while CIPFA agrees that it is not appropriate to recognise the sovereign power to tax as an asset, past practice and experience in terms of the income generation capacity of government (whether through taxation or otherwise) and the overall fiscal position will often be factors which are relevant to whether an arrangement is in practice binding, or is likely to be overturned through the exercise of sovereign power. We would note that earlier recognition than that proposed in the ED could introduce measurement issues, such as the need to reflect uncertainty in whether payments would be made, and if recognition is substantially earlier than payment, it might be appropriate to make adjustments to reflect the time value of money. Notwithstanding the above observations, CIPFA agrees that the ED proposal represents a positive step forward as the basis for a workable standard. While it may not capture the full liability for future payment in all countries, at the very least it provides a benchmark for the leading edge of that liability, and provides useful information for the readers of financial statements.

Specific Matter for Comment 5: Regarding the disclosure requirements for the obligating event approach, do you agree that: (a) The disclosures about the characteristics of an entity's social benefit schemes (paragraph 31) are appropriate; (b) The disclosures of the amounts in the financial statements (paragraphs 32–33) are appropriate; and (c) For the future cash flows related to from an entity's social benefit schemes (see paragraph 34): (i) It is appropriate to disclose the projected future cash flows; and (ii) Five years is the appropriate period over which to disclose those future cash flows. If not, what disclosure requirements should be included?
CIPFA agrees that the above disclosure requirements are appropriate.
Specific Matter for Comment 6: Do you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, and if so, how? If you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, what additional new developments or perspectives, if any, have emerged in your environment which you believe would be relevant to the IPSASB's assessment of what work is required?
IPSASB's development of an IPSAS on *Social Benefits* naturally prompts consideration of RPG1 and issues relating to long term fiscal sustainability. CIPFA would not support the development of a mandatory pronouncement – the disadvantages listed in the preamble to SMC 6 are similar to those considerations which led CIPFA and others to support development of Recommended Practice Guidance in the first place, and we do not consider that there have been significant changes which would lead to a different assessment. However, for social benefits and other long term programmes, the fact that the continuing operation of a programme might have effects on fiscal sustainability is an important factor, which should potentially affect the way in which readers process the information in public sector financial statements. It will not generally represent a challenge to the going concern assumption used to prepare the financial statements, but it can signpost the fact that this assumption may be challenged in future accounting periods. We therefore suggest that the IPSASB might conduct a limited review of fiscal sustainability considerations as they relate to General Purpose Financial Statements. This might result in an explanatory disclosure which either comments on the existence of LTFS analyses where these are produced, or, where they are not produced, explains the relevance of long term fiscal sustainability in general terms. Such disclosure might mainly be relevant at whole of government level.