

Consultation Paper *Recognition and Measurement of Social Benefits*

response to consultation

31 January 2016

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International Public Sector Accounting Standards Board
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Submitted electronically

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Dear IPSASB secretariat

Consultation Paper *Recognition and Measurement of Social Benefits*

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

General comment

CIPFA welcomes the publication of this paper which takes forward the development of the appropriate accounting treatment for a key category of non-exchange transactions which differentiate the conduct of the public sector from profit seeking entities. This is 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. Timely completion of this project will help further establish IPSAS as the pre-eminent standards for public sector reporting

CIPFA agrees with the preliminary views set out in the Consultation Paper, subject to one drafting comment on the definition of social risk.

Specific matters for comment

Responses to the specific matters for comment are provided in an attached Annex.

I hope this is a helpful contribution to the Board's development of standards and guidance on Social Benefits. If you have any questions about this response, please contact Steven Cain (e: steven.cain@cipfa.org, t: +44(0)20 7543 5794).

Yours sincerely

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Responses to Specific Matters for Comment**Specific Matter for Comment 1**

In your view:

(a) Is the scope of this CP (i.e., excluding other transfers in kind, collective goods and services, and transactions covered in other IPSASs) appropriate?

(b) Do the definitions in Preliminary View 1 provide an appropriate basis for an IPSAS on social benefits?

(a) CIPFA agrees that the proposed scope is appropriate. Concentrating on individuals has the effect of focussing on a coherent set of issues to help achieve a resolution, and probably addresses the more urgent gap in IPSAS standards. Broadening the scope to encompass both exchange and non-exchange transactions may make the development process more straightforward, and should help the Board to develop a treatment which reduces problems relating to edge cases.

The other types of expenditure pose different reporting challenges and it makes sense to deal with them separately. Moreover, while collective goods and services are an important category of public sector expenditure, it is less clear to us that there is a significant gap in current reporting, and perhaps the main issue is in connection with the non-financial assets linked to this expenditure, which is substantially dealt with through the inclusion of service potential in the recognition of public sector assets.

Even the reduced scope will stimulate significant debate on this important topic, and keeping the discussion focussed will help the Board to avoid undue delay.

(b) The definitions in Preliminary View 1 generally provide an appropriate basis for an IPSAS on social benefits. However, we suggest that the word 'additional' should be deleted from the definition of social risks. As drafted, the implication is that social risks only arise where there is a change in the welfare of a household or individuals. This articulation may not be helpful if applied to circumstances which reflect long term poverty, or the circumstances of individuals born into conditions of deprivation. Social risks may also be subject to environmental factors and factors arising from technological innovation or societal change.

Specific Matter for Comment 2

(a) Based on your review of Chapters 4 to 6, which approach or approaches do you support?

- (i) The obligating event approach;
- (ii) The social contract approach; and
- (iii) The insurance approach.

Please provide reasons for your views, including the conceptual merits and weaknesses of each option; the extent to which each option addresses the objectives of financial reporting; and how the different options might provide useful information about the different types of social benefit.

(b) Are you aware of any additional approaches to accounting for social benefits that the IPSASB should consider in developing an IPSAS? If yes, please describe such approach(es) and explain the strengths and weaknesses of each.

(a) CIPFA supports further development of approaches (i) and (iii).

While the social contract approach highlights aspects of the delivery and financing of social benefits in some jurisdictions, we do not consider that it would provide a useful view of the economic substance while remaining consistent with the approach to recognition and measurement of liabilities in the context of the IPSASB conceptual framework.

For non-contributory schemes, the obligating event approach looks to be a good fit with the IPSAS's Conceptual Framework definition of a present obligation. For schemes with a contributory element which safeguards the contributor against social risks which may or may not be realised, the insurance approach may provide appropriate information.

(b) CIPFA is not aware of any additional approaches that the IPSASB should consider.

Specific Matter for Comment 3 (following paragraph 3.4)

Having reviewed the three options in Chapters 4 to 6, are you aware of any social benefits transactions that have not been discussed in the CP, and which could not be addressed by one or more of the options set out in the CP?

If so, please provide details of the social benefit transactions you have identified and explain why the options set out in the CP do not adequately cover these transactions.

CIPFA is not aware of any types of transactions which should have been discussed in the CP that have been omitted.

The Obligating Event Approach

Specific Matter for Comment 4

In your view, at what point should a future IPSAS specify that an obligating event arises under the obligating event approach? Is this when:

- (a) Key participatory events have occurred ;
- (b) Threshold eligibility criteria have been satisfied ;
- (c) The eligibility criteria to receive the next benefit have been satisfied;
- (d) A claim has been approved;
- (e) A claim is enforceable; or
- (f) At some other point.

In coming to this conclusion, please explain what you consider to be the relative strengths and weaknesses of each view discussed in this chapter.

If, in your view, a future IPSAS should consider that an obligating event can arise at different points depending on the nature of the social benefit or the legal framework under which the benefit arises, please provide details.

Please explain the reasons for your views.

Within the UK context, satisfaction of eligibility criteria per (c) is a strong indicator that there is an obligation. Especially for non-contributory benefits.

We are wary of taking criterion (a) as the determinant of obligation. In considering criterion (b), care needs to be taken to recognise the correct obligation, and whether this relates only to the next benefit, or to a broader liability. (The question of how that liability should be measured is, of course, a separate matter).

In the light of the above, we consider that criterion (c) should be the starting point, but at this stage we are wary of narrowing down the discussion to a single criterion. We can see that there is a distinction between recognition criteria relating to risks which are relate to unplanned events, such as unemployment, sickness and accidents, and those which relate to events which are planned and eventual receipt is highly likely. Full consideration of this issue may also depend on which transactions are considered to fall under the obligating event approach and which under the insurance approach.

Specific Matter for Comment 5

In your view, does an obligating event occur earlier for contributory benefits than non-contributory benefits under the obligating event approach?

Please explain the reasons for your views.

We note that contribution is not explicitly listed in the events in SMC4. We presume that contribution events might be considered to be within (a) key participatory events.

In the context of the social benefit arrangements in the UK, CIPFA is not convinced that an obligating event could ever occur earlier for contributory benefits; contribution itself would need to be taken together with another event in order to trigger recognition.

However, we would note that social benefit arrangements in other countries might be constructed very differently and operate within very different legal and regulatory frameworks. It might also be appropriate to consider whether obligations might be recognised for aggregates of potential beneficiaries in advance of events which trigger individual entitlement.

The Obligating Event Approach (continued)

Specific Matter for Comment 6

In your view, should a social benefit provided through an exchange transaction be accounted for:

- (a) In accordance with a future IPSAS on social benefits; or
- (b) In accordance with other IPSASs?

Please provide any examples you may have of social benefits arising from exchange transactions.

Please explain the reasons for your views.

Per our response to SMC 1(a), CIPFA agrees with the IPSASB's proposal to focus on social benefits, but not to require that these arise purely from non-exchange transactions.

Our preliminary view is that it will probably be best to provide guidance on these social benefits in the same IPSASs as for non-exchange social benefits, because this will be more practical than providing guidance on when schemes with a contributory element do or do not have the substance of exchange transactions.

Specific Matter for Comment 7

In your view, under the obligating event approach, when should scheme assets be included in the presentation of a social benefit scheme:

- (a) In all cases;
- (b) For contributory schemes;
- (c) Never; or
- (d) Another approach (please specify)?

Please explain the reasons for your views.

CIPFA's preliminary view is that this information should be provided where the assets are irrevocably associated with the scheme and are material to the understanding of a significant social benefit scheme.

The Social Contract Approach

CIPFA does not support further consideration of the Social Contract Approach

The Insurance Approach

Specific Matter for Comment 9

Do you agree with the IPSASB's conclusions about the applicability of the insurance approach?

Please explain the reasons for your views.

This is a new approach and it is more difficult to evaluate it given the potential range of implementations of social insurance outlined.

However, CIPFA agrees with the approach proposed by the Board as a basis for further work to inform the development of an IPSAS exposure draft.

The reasoning set out by the Board is detailed and covers a range of scenarios which may be realised very differently in different jurisdictions. The points made by the Board appear valid and we have not identified any problems based upon the examples provided or other consideration by CIPFA.

Specific Matter for Comment 10

Under the insurance approach, do you agree that where a social security benefit is designed to be fully funded from contributions:

- (a) Any expected surplus should be recognized over the coverage period of the benefit; and
- (b) Any expected deficit should be recognized as an expense on initial recognition?

Please explain the reasons for your views.

CIPFA agrees with this treatment.

The Insurance Approach (continued)

Specific Matter for Comment 11

In your view, under the insurance approach, what is the appropriate accounting treatment for the expected deficit of a social security benefit that is not designed to be fully funded from contributions:

- (a) Recognize an expense on initial recognition;
- (b) Recognize the deficit as an expense over the coverage period of the benefit;
- (c) Offset the planned subsidy and the liability only where this is to be received as a transfer from another public sector entity;
- (d) Offset the planned subsidy and the liability irrespective of whether this is to be received as a transfer from another public sector entity or as an earmarked portion of general taxation; or
- (e) Another approach?

Please explain the reasons for your views.

In CIPFA's view and based on our understanding of social benefit programmes developed in the United Kingdom, the fact that a social benefit programme is not designed to be fully funded raises a significant challenge as to whether the social insurance approach should be applied, and in general we would not expect this to be appropriate.

However, it may be that in other countries, the combination of scheme implementation and the relationship with law and expectations may operate so that the social insurance approach is a realistic representation of the economic substance. Depending upon the specific circumstances, any of the approaches (a) to (d) might potentially be applicable.

Specific Matter for Comment 12

In your view, under the insurance approach, should an entity use the cost of fulfillment measurement basis or the assumption price measurement basis for measuring liabilities? Please explain the reasons for your views.

CIPFA's preliminary view is that the cost of fulfilment basis should be used.

Specific Matter for Comment 13

Do you agree that, in those cases where the link between contributions and benefits is not straightforward, the criteria for determining whether the insurance approach is appropriate are:

- The substance of the scheme is that of a social insurance scheme; and
- There is a clear link between the benefits paid by a social security scheme and the revenue that finances the scheme.

If you disagree, please specify the criteria that you consider should be used.

Please explain the reasons for your views.

CIPFA agrees with these criteria, which will help ensure that the Insurance approach is applied to arrangements for which it will produce useful information.

The Insurance Approach (continued)

Specific Matter for Comment 14

Do you support the proposal that, under the insurance approach, the discount rate used to reflect the time value of money should be determined in the same way as for IPSAS 25?

Please explain the reasons for your views.

CIPFA agrees with the use of the same discount rate as that used for IPSAS 25, in line with the reasoning set out by the Board at 6.64 to 6.71 of the CP.

Specific Matter for Comment 15

Under the insurance approach, do you support the proposals for subsequent measurement set out in paragraphs 6.73–6.76?

Please explain the reasons for your views.

CIPFA supports the proposals for subsequent measurement.