



Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	IPSASB Consultation Paper <i>Social Benefits</i>	Meeting	AASB December 2015 (M149)
Topic:	Consider the Consultation Paper's proposals relevance to Australia	Agenda Item:	15.1
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		Decision-Making:	High
		Project Status:	Form views on extent of submission

Introduction and objective of this paper

- 1 The objective of this paper is to:
 - (a) provide the Board with an overview of the proposals in the IPSASB's Consultation Paper (CP) *Recognition and Measurement of Social Benefit*;
 - (b) discuss the relevance of the proposals for Australia; and
 - (c) decide whether to make a submission to this CP and if so to what extent.

Attachments

- Agenda Paper 15.2 Presentation Slides on CP *Recognition and Measurement of Social Benefits*
- Agenda Paper 15.3 IPSASB Consultation Paper [Recognition and Measurement of Social Benefits](#) (for information only)
- Agenda Paper 15.4 'At a Glance' [Consultation Paper Summary – Recognition and Measurement of Social Benefits](#) (for information only)

Summary of staff recommendations

- 2 Staff recommend that due to the extent of social benefit expenditure to the Commonwealth Government and the broad nature of the scope proposed in the CP, the AASB should provide a submission to the IPSASB.

Background to Social Benefits Project

- 3 The IPSASB issued this CP in July 2015 with comments due by 31 January 2016. The objective of the Social Benefits project is to establish recognition and measurement requirements for social benefits. Delivering social benefits is a primary objective of many governments but currently no IPSAS addresses how to account for these benefits. IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets* specifically excludes any provisions related to social benefits in a non-exchange transaction.

- 4 Previous consultation documents related to social benefits include:
- Invitation to Comment *Accounting for Social Policies of Government*, issued by the Public Sector Committee (predecessor of the IPSASB) in January 2004;
 - IPSASB Exposure Draft (ED) 34 *Social Benefits: Disclosure of Cash Transfers to Individuals or Households*, issued March 2008;
 - Consultation Paper *Social Benefits: Issues in Recognition and Measurement*, issued March 2008; and
 - Project Brief, *Long-Term Fiscal Sustainability*, issued March 2008.
- 5 Respondents to ED 34 did not agree that disclosure alone was sufficient to convey information about social benefits, and the IPSASB recognised the linkages between Social Benefits project, the Conceptual Framework project and Fiscal Sustainability project and decided to defer the Social Benefits project until the completion of these other projects.
- 6 Recommended Practice Guideline 1 *Reporting on the Long-term Sustainability of an Entity's Finances* was issued in July 2013 and *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (Framework)* was issued in March 2014. These pronouncements, together with Policy Paper *Process for Considering GFS Reporting Guidelines during Development of IPSASs* have been used in developing the proposals in this CP.

Key Proposals in this CP

- 7 It is proposed that any IPSAS issued as a result of this project will have the following objectives:
- IPSASs shall require an entity to provide information that helps users of its general purpose financial reports to assess:
- (a) The nature of social benefits provided by the entity and the key features of the operation of the scheme; and
 - (b) The impact of social benefits provided on the entity's financial performance and financial position.
- 8 The IPSASB considers it important to reduce differences with Government Finance Statistics (GFS) where appropriate and have therefore aligned, to the extent possible, the definitions and the scope of this project with GFS. Accordingly the scope of this project includes social assistance and social security (a sub-set of social insurance), but excludes employment-related social insurance, other transfers in kind and collective goods and services. The definitions of these terms can be found in Chapter 2 *Scope and Definitions* of the CP.
- 9 The CP proposes three options for the recognition and measurement of social benefits:
- Obligating event approach;
 - Social contract approach; and
 - Insurance approach.

Option 1: Obligating event approach

- 10 This approach considers social benefits by reference to the definition of a liability in the *Framework*. The key issue is when a present obligation arises. The CP identifies five distinct points at which a case can be made for recognising an obligation in the financial statements:
- (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; or
 - (e) a claim is enforceable.

Option 2: Social contract approach

- 11 This approach acknowledges, as commitments, both:
- (a) public sector obligations to provide goods, services and cash transfers to individuals or households; and
 - (b) the rights of individuals or households to receive those benefits.
- 12 These obligations are offset by the ongoing duty of individuals and households to contribute taxes and other sources of finance. Therefore, there is an imputed social contract between the state and its citizens that the citizens agree to pay taxes to enable the state to provide social benefits. This is analogous to an executory contract. Under the social contract approach, obligations are recognised when they become enforceable (or when claims are approved).

Option 3: Insurance approach

- 13 The insurance approach considers that some social benefits are similar in practice to insurance contracts and therefore uses an insurance accounting model to measure these social benefit schemes at the net present value of the cash inflows and outflows. This approach recognises a present obligation to pay benefits at the point that coverage begins and also recognises a right to future receipts resulting from the provision of that coverage. Therefore, the insurance approach is only suited to contributory benefits.
- 14 The IPSASB has a preliminary view that a combination of both the obligating event and insurance approaches may be required to reflect the differing economic circumstances of social benefits.

Current Australian Accounting for Social Benefits

- 15 Accounting for social benefits is addressed in AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* and Resource Management Guide No. 124 (RMG 124) *Accounting for social benefit payments*.
- 16 AASB 137 paragraph Aus26.1 states: "... a government does not have a present obligation to sacrifice future economic benefits for social welfare payments that might arise in future reporting periods. A present obligation for social welfare payments arises only when entitlement conditions are satisfied for payment during a particular payment period."

- 17 RMG 124 is a non-mandatory guide that provides guidance on accounting for social benefit payments (both cash and non-cash) provided by Government to eligible individuals or households. Social benefits is defined in RMG 124 as ‘current transfers (in cash or kind) to households to provide for needs arising from events such as sickness, unemployment, retirement, housing, education, or family circumstances. The guidance does not apply to benefits:
- the government provides to the community for which there are no eligibility requirements such as public goods;
 - payments that might have similar characteristics to social benefits but are really compensation or remuneration (e.g. insurance contracts, employee benefits or compensation provisions); or
 - paid through the tax system (e.g. tax offsets).
- 18 The key points in RMG 124 are:
- social benefit payments should be recognised at the point when recipients have met the eligibility criteria for the payment period and the payment or other benefits is due (the ‘due and payable basis’);
 - this usually means recognising an expense for each regular (e.g. fortnightly) cash payment and an end of period liability for any accrued entitlements; and
 - social benefits liabilities should not be recognised for constructive obligations or for future payments the Government may make beyond the current payment period.
- 19 Therefore, the approach currently applied within Australia would align to the IPSASB’s Option 1: Obligor event approach – (c) the eligibility criteria to receive the next benefit have been satisfied.
- 20 However, staff note that there are other schemes operated within Australia that may fall within the CP’s definition of ‘social benefits’^{1, 2}, because of their contributory aspect (e.g. worker’s compensation and transport accident schemes). These schemes may or may not be accounted for as insurance under the CP.

Staff Recommendation

- 21 Given that social security and welfare has the largest expenditure of any function³ of the Australian Commonwealth Government, and there is no current accounting standard that specifically addresses how to account for social benefits, staff consider that any pronouncement issued from this project may have an impact on how social benefits are accounted for in Australia.
- 22 Further, due to the scope of the CP including contributory social security schemes that may include other schemes such as worker’s compensation and transport accident

¹ Social benefits are defined as: Benefits provided to individuals and households, in cash or in kind, to mitigate the effect of social risks.

² Social risks are defined as: Events or circumstances that may adversely affect the welfare of individuals and households either by imposing additional demands on their resources or by reducing their income.

³ The Commonwealth of Australia Consolidated Financial Statements for 2013-14 indicate that \$140B (total expenditure by function was \$411B) was spent on social security and welfare.

schemes which are operated by State governments, AASB staff consider that a submission should be made to the IPSASB on this CP.

- 23 The due date for comment on this CP is 31 January 2016. Staff consider that there are two options for responding to this CP. Firstly, a high-level submission (e.g. to confirm the scope and definitions used in the CP) can be made, this could be finalised through the Chair before comments close.
- 24 Alternatively, a more detailed response can be provided and finalised at the February 2016 AASB meeting. Because this AASB meeting is after the comment due date of the CP, staff have communicated with IPSASB staff who have indicated that if the AASB wishes to make a detailed submission after 31 January 2016, it would still be considered in an analysis of comments scheduled to be discussed at the June 2016 IPSASB meeting.

Question 1 to the Board

Does the Board agree that a submission should be made to the IPSASB on this CP?

Question 2 to the Board

If the Board agrees to making a submission which option is preferred:

- (a) A high-level submission finalised through the Chair; or
- (b) a detailed submission finalised at the February 2016 AASB meeting?

Question 3 to the Board

Is the Board aware of any other issues in Australia that are of relevance to the Social Benefits project?