



New South Wales  
TREASURY

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Contact: Barbara Richardson  
Telephone: (02) 9228 4832  
Our Reference: T05/1897  
Your Reference: ITC 15

16 June 2008

Dear Professor Boymal

**Comments on ITC 15 – Social Benefits**

NSW Treasury welcomes the opportunity to provide comments to the Australian Accounting Standards Board's Invitation to Comment 15, which consists of the following papers:

- IPSASB Exposure Draft 34 *Social Benefits: Disclosure of Cash Transfers to Individuals and Households* and
- IPSASB Consultation Paper *Social Benefits: Issues in Recognition and Measurement*.

The IPSASB proposals on social benefits also included a project brief on *Long-Term Fiscal Sustainability Reporting*.

In summary, NSW Treasury:

- does not support using the IPSASB's current work on social benefits in Australia as it:
  - does not believe that the proposals in ED 34 would result in financial statements that would be useful to users
  - does not agree with the proposal to issue a standard on the recognition and measurement of social benefits based on an accounting concept other than "due and payable" and
- supports a project reporting on the long-term fiscal sustainability of governmental programs and finances.

NSW Treasury's detailed comments on the above three papers are attached.

If you have any queries regarding NSW Treasury's comments, please contact me on (02) 9228 3019 or Barbara Richardson on (02) 9228 4832.

Yours sincerely

Robert Williams  
for Secretary

## NSW TREASURY RESPONSE TO AASB INVITATION TO COMMENT ITC 15

### **IPSASB Exposure Draft ED 34 *Social Benefits: Disclosure of Cash Transfers to Individuals or Households***

#### **General Comments**

NSW Treasury agrees with IPSASB that financial statements do not meet all the information needs of government report users on the topic of social benefits. However, it is not the objective of general purpose financial reports to meet all information needs.

NSW Treasury does not support IPSASB ED 34 as it recommends disclosing prospective information which does not currently fall within the scope of Accounting Standards. The general purpose financial report is an ex-post financial report that generally reports on past events.

Although we understand that the draft IPSASB Conceptual Framework will propose extending the scope of Accounting Standards, we do not support this and it has not yet been approved. The recommendations in the Exposure Draft are premature and if this information is disclosed at all, it should be disclosed outside the audited financial statements in the body of the annual report (similar to management discussion and analysis).

The Exposure Draft also pre-empts the recognition and measurement project. By disclosing this information, there is a connotation that it has relevance to assessing performance in the current financial reporting period. NSW Treasury does not agree that the amounts disclosed as defined meet the recognition criteria for a liability and, until this is resolved, believes that it is problematic to require disclosures.

NSW Treasury therefore believes that this issue is more appropriately addressed outside the general purpose financial report, as part of wider issues such as triple bottom line and sustainability reporting in conjunction with other IASB projects, including management commentary, and the IPSASB long-term fiscal sustainability project.

Further, in this context, we believe that the scope of the project needs to be expanded to include the right to tax and not just one form of social benefit. The usefulness of the information on social benefits is diminished by the fact that the proposed disclosure does not mandate reporting on government receipts used to fund those benefits – notably taxes.

While NSW Treasury does not support ED 34, it has provided some comments on specific matters raised which may be of assistance, as follows:

#### **Specific Matters for Comment on the Exposure Draft**

- 1. Whether the scope of the ED is appropriate. If not, detail how scope should be modified.*

As discussed above, NSW Treasury only supports a project on long-term fiscal sustainability, where disclosures appear outside the audited financial statements.

With this proviso, NSW Treasury believes that the scope of the exposure draft should be extended to include the right to tax and not just one type of social benefit. The exclusion from the scope of social benefits provided in the form of individual and collective goods and services does not provide the full cost required from government for providing social benefits. This exclusion may lead to manipulation of disclosures by converting cash transfer programs into individual goods and services, in order to avoid or minimise disclosure.

Given that the right to tax is at the government level, NSW Treasury believes that any future social benefit disclosures should also be restricted to the whole-of-government level.

*2. Whether the new definitions are sufficiently clear and comprehensive. If not, indicate how the definitions should be modified and whether any new terms should be defined.*

NSW Treasury does not believe that the new definitions are sufficiently clear, for the following reasons:

- The definitions of “social benefits” and “individual goods and services” are not logical, as both refer to the other. It is perhaps too complicated to include the three categories of social benefits within the definition of “social benefits.” Although considered and rejected, it might be preferable to use the GFSM 2001 meaning at paragraph 2.25:

“Social benefits, .... are payments in cash or in kind to protect the entire population or specific segments of it against certain social risks.”

IPSASB might also consider using the “scope-out” paragraphs in IPSAS 19 as a basis for a definition (paragraphs 7-11).

- The difference in the three categories of social benefits is not necessarily clear and may require further explanation. The distinction between collective goods and services and individual goods and services may be entrenched in statistical accounting, but it is not in Accounting Standards. Therefore, it requires clarification. For example, while a health or education system may be a collective system, there may be individual goods or services as part of that system. This is explained in the ABS Australian National Accounts: Concepts, Sources and Methods, 2000 (paragraph 14.335).
- However, the distinction relating to the three categories should not matter if the principles regarding the accounting are clear. The form of the transfers should not dictate the accounting treatment. This is because it is quite arbitrary whether social benefits are provided in the form of cash or goods or services; e.g. where cash is provided as a reimbursement for goods or services received or whether the service provider rather than the individual or household receives the cash transfer.

*3. Whether the requirements for the determination of amounts expected to be transferred to eligible individuals or households are appropriate. If not, indicate what the requirements should be.*

NSW Treasury believes this is prospective information, as it does not meet the recognition criteria of a liability. As such, we do not believe it should be disclosed in the audited financial report. In addition, this is arbitrary information that is potentially misleading; i.e. in terms of

the assumptions ('continuous entitlement') and limited scope of social benefits, without any comparable prospective information in terms of the tax revenues.

4. *Whether the disclosure requirements are appropriate. If considered unduly onerous, indicate which disclosures should not be required. Conversely, if the proposed disclosure requirements are inadequate, indicate what further disclosures should be included.*

As NSW Treasury does not support the Exposure Draft, it is premature to discuss the appropriateness of disclosure requirements.

5. *Whether the disclosure requirements would provide information that is verifiable. If not, identify the specific disclosures and state what the implications are.*

There is an inherent difficulty in verifying prospective information. However, even if verifiable, the information would be incomplete, arbitrary and misleading because only some social benefits would be disclosed and equivalent information is not reported regarding expected tax revenue.

6. *Whether the implementation arrangements are appropriate. If not, how should they be changed?*

No comment.

### **IPSASB Consultation Paper *Social Benefits: Issues in Recognition and Measurement***

NSW Treasury's comments are based on the approach taken to the provision of social benefits in Australia.

Australian paragraph Aus26.1 of Australian Accounting Standards Board AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* 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."

### **General Comments on the Consultation Paper**

NSW Treasury strongly disagrees with the proposal to issue a standard on the recognition and measurement of social benefits that is based on an accounting concept other than "due and payable". For social benefit payments, an obligation only arises when entitlement conditions are satisfied for payment during a particular payment period. Please refer to the previous submission of July 2004 made by the Australian Heads of Treasuries Accounting and Reporting Advisory Committee (Attachment 1).

We believe that information about the future obligations of the government to provide social benefits may be useful. However, this information should be provided outside the financial accounting framework applied to general purpose financial statements, which excludes prospective information. A long-term fiscal sustainability report would be a more appropriate method of providing the information.

## **Specific Matters for Comment on the Consultation Paper**

**Question 1 – Do you agree that, within the constraints of the current implied conceptual framework for general purpose financial reporting, current financial statements such as the statement of financial position and the statement of financial performance cannot convey sufficient information by themselves to users about the financial condition of governmental programs providing social benefits? Please state your reasons.**

NSW Treasury agrees with this statement. Financial statements are based on past events, which can provide useful information for evaluating the financial performance/position of an entity but do not fulfil all needs of users with regards to social benefit programs. Social benefit reporting may be improved with information on the future expenditure and financing of these programs. However, this information should not be included within financial statements. Inclusion would result in inconsistencies between balance sheet items and would impair the comprehension and comparability of the financial statements. The IASB Framework (paragraph 13) acknowledges that financial statements do not provide all the information that users may need to make economic decisions since they largely portray the financial effects of past events and do not necessarily provide non-financial information. The financial statements should be read in conjunction with other financial and non-financial information, such as provided in the annual report and in Government budgets. This is equally true for social benefits information as with other aspects of the government's operations.

**Question 2 – Do you think that a present obligation to individuals or households arises at any time for:**

- a) **Collective goods and services; and/or**
- b) **Individual goods and services?**

**If you think a present obligation does arise for either (a) or (b) or both (a) and (b), please indicate when and indicate your reasons.**

### **(a) Collective goods and services**

NSW Treasury does not believe that a present obligation exists for the provision of collective goods and services. In Australia, the provision of collective goods and services does not create a binding obligation. A government public announcement to provide collective goods and services is an intention or commitment, and thus neither a legally binding decision, nor a constructive obligation to the government.

More specifically, governments typically commit to achieve a specific outcome (e.g. affordable housing) and not to make specific payments or to provide specific services in a specific location. A government still retains the discretion to avoid the sacrifice of future economic benefits. It can withdraw its promises if it decides that the situation requires it.

For similar reasons, NSW Treasury believes that the identification of a present obligation should be in the context of current legislation and that preparers should not prejudge possible changes in legislation.

**(b) Individual goods and services**

NSW Treasury believes that a present obligation can arise for individual goods and services once eligibility criteria have been satisfied for the present payment period, giving rise to a valid expectation by the citizen that the government will provide the benefit. However the obligation is not binding indefinitely, and can be altered by the government as early as the next payment period.

**Question 3 – Do you think that a present obligation to individuals or households in respect of cash transfers arises when all eligibility criteria have been satisfied for:**

- a) Non-contributory programs; and/or
- b) Contributory programs?

**If you think that a present obligation arises at an earlier point for (a) or (b) or both (a) and (b), please indicate that point and give your reasons.**

**(a) Non-contributory programs**

NSW Treasury supports the 'due and payable approach' for non-contributory programs; i.e. an obligation arises in relation to specific social benefit payments only when entitlement conditions are satisfied for payment during a particular payment period.

A present obligation does not arise regarding social benefit payments in future reporting periods. This may be regarded as a narrow interpretation of the 'due and payable approach', as NSW Treasury does not believe that meeting eligibility criteria at one point in time creates a present obligation that is binding in relation to all future periods. Rather, we believe the liability is limited to the next particular payment period. This is because the Government has discretion beyond that period to avoid the sacrifice of future economic benefits by modifying the social benefit arrangements.

**(b) Contributory programs**

Australia does not have social insurance and we are not aware of any other social benefits that currently would give rise to a liability at an earlier point.

NSW Treasury believes that the identification of a present obligation should be in the context of the current legislation and that preparers should not prejudge possible changes in legislation.

**Question 4 – Where a cash transfer program requires individuals or households to revalidate their entitlement to benefits, do you think that revalidation is an attribute that should be taken into account in the measurement of the liability or a recognition criterion? Please state your reasons.**

NSW Treasury believes that revalidation should be taken into account in determining whether or not the definition and recognition criterion are satisfied, rather than the measurement of the liability. If revalidation were incorporated in the measurement of the liability, it would result in the recognition of future liabilities.

Revalidation is more relevant to establishing whether there is a present obligation and whether an outflow of resources is probable; i.e. in the liability definition and recognition criterion, respectively.

However, this does not mean that a liability should be recognised for the period up to the next revalidation. Where there is a long period between revalidations (or validation only occurs once), circumstances could change such that the government has a realistic alternative to avoid making a future sacrifice of economic benefits. Therefore, NSW Treasury believes that an obligation only arises for non exchange transfers when entitlement conditions are satisfied for payment during a particular payment period.

Nevertheless, in many circumstances in Australia, the onus is on constituents to inform government that they are no longer eligible for benefits. This could be interpreted as requiring validation every payment period.

**Question 5 – Do you think that in developing requirements for recognition and measurement of social benefits the IPSASB should further explore the executory contract accounting model briefly outlined in Key Issue 6. Please state your reasons.**

Yes. NSW Treasury agrees that social benefits are similar in concept to executory contracts, in the sense that the liability for future social benefits is offset by the government's right to tax. However, an important distinction is that executory contracts are normally reciprocal or exchange transactions while social benefits are not. Obligations under such contracts are generally not recognised as liabilities in the financial statements, as generally a rights and obligations approach is not adopted in Accounting Standards (refer IASB Framework, para 91). NSW Treasury strongly believes that wherever the right to tax cannot be recognised, the obligation to provide future social benefits should also not be recognised.

The Consultation Paper indicates that the Executory Contract Accounting Model is consistent with the US "inter-period equity" concept. NSW Treasury agrees that "inter-period equity" is a valuable concept for government accountability of social benefits. But this should be considered as part of the long-term fiscal sustainability reporting project (outside the audited financial report) rather than the recognition and measurement of social benefits.

**Additional Comments**

This project should progress in conjunction with the IASB projects on liabilities and the Conceptual Framework and the IPSASB project on the Conceptual Framework.

In addition, the interrelationship between this current project and the 2004 ITC needs to be clarified. The Consultation Paper is revisiting some of the same areas canvassed in the 2004 ITC. We believe that the IPSASB should further elaborate on the views respondents had about this issue in 2004 and the conclusions the IPSASB made, including whether there was any consensus.

**IPSASB Project Brief: Long-Term Fiscal Sustainability**

NSW Treasury supports this project.

We recommend that the project scope should address all governmental programs and finances, not just those related to social benefits, as well as future cash flows associated with the right to tax.

We agree that the project does not need to address environmental sustainability, although we admit there may be linkages between the two.

As to what the reporting entity is for the purpose of long-term fiscal sustainability reporting, NSW Treasury believes that the reporting entity should be at the whole-of-government level. Going down to the sector or individual entity level would be inappropriate.

Although several jurisdictions already publish this type of information, the development of either a standard or guidance in this area would enhance consistency and comparability. IPSASB would be the appropriate body to develop such a standard or guidance.



# AUSTRALASIAN COUNCIL OF AUDITORS- GENERAL

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16 June 2008

Mr David Boymal  
The Chairman  
Australian Accounting Standards Board  
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Collins Street West VIC 8007

Dear Mr Boymal

**ITC 15 - REQUEST FOR COMMENT ON IPSASB EXPOSURE DRAFT ED 34  
*SOCIAL BENEFITS: DISCLOSURES OF CASH TRANSFERS TO  
INDIVIDUALS OR HOUSEHOLDS AND IPSASB CONSULTATION PAPER  
SOCIAL BENEFITS: ISSUES IN RECOGNITION AND MEASUREMENT***

Members of the Australasian Council of Auditors-General (ACAG) have been canvassed and submit the attachment in response to the Invitation to Comment referred to above.

The views expressed in this submission represent those of the Australian members of ACAG.

The opportunity to comment is appreciated and I trust you will find the attached comments useful.

Yours sincerely

Frank McGuiness  
Chairman  
ACAG Financial Reporting and Auditing Committee

**ITC 15: Request for comment on IPSASB Exposure Draft ED 34 Social Benefits: Disclosures of Cash Transfers to Individuals or Households and IPSASB Consultation Paper Social Benefits: Issues in Recognition and Measurement**

**AASB Request for Comments:**

- i. *Whether it should use the IPSASBs work on social benefits, such as issuing an ED based on ED 34 and/or a subsequent IPSASB Exposure Draft or Standard on the recognition and measurement of social benefits, in Australia?*

We recognise that fiscal sustainability is an important issue. As expenditure on social benefit programmes is a substantial component of Australian Government expenditure, we believe that disclosures of expected payments under social benefits programmes would be useful to users of financial reports. We support additional rigour around reporting of these expenditures. In the same vein, the Australian National Audit Office recently proposed the development of standards for reporting tax expenditures.

We agree that ED 34 raises important issues. However, we do not agree with all the proposals contained in ED 34.

Although it is important to explore fiscal sustainability reporting, we do not believe that the AASB should, at this stage, seek to address recognition and measurement techniques for social benefits. The techniques proposed in the IPSASB consultation paper are not consistent with current accounting framework, for example the future payments of social benefit do not constitute a present obligation. Recognition and measurement techniques would be better addressed in the development of a fiscal sustainability framework.

- ii. *Any regulatory issues etc arising in the Australian environment that may effect the implementation of the proposals in ED 34 or the resolution of problems in the consultation paper?*

We see no specific regulatory issues that would effect the implementation of ED 34. We do however note that the principles within the ED depart from the existing accounting framework and thus create a potential uncertainty if the boundaries of the disclosures are not carefully defined.

- iii. *Would the proposals in ED 34 result in financial statements that would be useful to users?*

Disclosures regarding social benefits would be useful to users. However, we believe the specific disclosures proposed in ED 34 would not enhance usefulness of financial reports.

The disclosures would not comprehensively address the full extent to which the government will incur future payments of cash transfer social obligations to those

eligible in Australia. The information would only consist of information regarding participants currently eligible. In particular, a net present value of those payments would not provide relevant information to users.

Further, due to the heavy reliance on assumptions in calculating the proposed disclosures, there is a significant risk of non-comparability between entities and jurisdictions which would reduce the usefulness to users.

*iv. Whether the proposals in ED 34 are in the best interests on the Australian economy?*

Whilst at this stage we do not agree that an ED should be released proposing this standard, we do agree that the issues that brought about the development of this standard are important for the future. In particular, it would be useful for the AASB to address disclosure of social benefits.

**Exposure Draft 34: Social Benefits: Disclosure of Cash Transfers to Individuals or Households**

**Specific matters for comment:**

*a. Is the scope of the ED appropriate?*

Yes, we believe the scope is appropriate given the intention of the standard to disclose information about the fiscal sustainability of future non-exchange social benefit payments to eligible Australian citizens. We do however believe that future work should address broader issues such as social benefits that relate to goods and services to report comprehensively on welfare programmes.

*b. Are the new definitions in paragraph 10 sufficiently clear and comprehensive?*

The definitions in paragraph 10 are sufficiently clear and comprehensive. As this is a relatively new topic based standard, it is important that definitions such as these are included in the description of the standard.

*c. Are the requirements for the determination of amounts expected to be transferred to eligible individuals or households appropriate?*

We do not believe that the requirements for determination of amounts expected to be transferred to eligible individuals or households are appropriate.

In the determination of amounts that will be transferred to eligible individuals or households, the ED proposes that only individuals or households that meet eligibility criterion at reporting date will be used. Although this is a requirement that can be reliably measured, we question whether by limiting these requirements we also limit the relevance of the financial information presented. For example, a particular program may show a decrease in payments over time because at the reporting date it is expected that the number of currently eligible individuals or households will decrease. It does not take into account the expectation that over time many individuals and households, not currently eligible, will enter and leave the programs and receive payments. Unless these payments were included, we believe the proposed disclosures would lack relevance, and therefore not be useful to financial statement users.

*d. Are disclosure requirements in paragraph 45 appropriate?*

The proposed disclosure requirements set out in paragraph 45 are comprehensive. To further improve disclosure, a statement to the effect that the government has no present obligation to pay those social benefits would be useful.

We do not agree that the requirements of paragraph 45(b) are appropriate. We do not consider that a net present value of payments to only those eligible at reporting date is relevant information. We are concerned that this disclosure would also be difficult to understand and explain to users.

As an alternative, we believe that disclosure would be enhanced if disclosures:

- were presented by specified time bands e.g. less than one year, one to five years, five to ten years;
- present the sum of expected payments to individual and households at reporting date plus projections of individuals and households entering and leaving the programmes; and
- based on amounts expected to be paid, rather than the entitlement level at reporting date.

We are also mindful of the ever increasing requirements on entities to disclose financial information in their financial statements. We would want to ensure that if the disclosures were adopted, their usefulness would far outweigh the additional cost of including them. In this regard, we believe the requirements of 45(a) and 45(c) to be excessive. A government agency may have many programs, and to detail every program and list every piece of legislation could be onerous. Although the ED allows these disclosures to be made in summary form, this also poses problems, particularly in attempting to summarise meaningfully many separate pieces of legislation.

*e. Will the disclosure requirements provide information that is verifiable?*

As the information that is provided in the disclosure is predominantly based on historical information, information should be verifiable. Assumptions also are important in calculating future social benefits payable, but we believe these could also be verified.

*f. Are the implementation arrangements appropriate?*

If a standard was to be adopted we agree with the extended timeframe proposed for implementation. This is a new area of financial statement reporting which will require a substantial amount of preparation and work.

## Consultation Paper: Social Benefits: Issues in recognition and Measurement

### Specific matters for comment:

1. *Do you agree that, within the constraints of the current implied conceptual framework for general purpose financial reporting (GPFR), current statements such as the statement of financial position and the statement of financial performance cannot convey sufficient information by themselves to users about the financial condition of governmental programs providing social benefits? Please state reasons*

Yes, we agree that within the current conceptual framework the statement of financial position and the statement of financial performance cannot convey future financial conditions of programs providing social benefits.

We are not convinced that changes to these statements are essential to achieve the objective of adequately informing users of the future costs of social benefit programs. We believe that appropriate disclosures can achieve this objective. The advantage of note disclosure is that it is not constrained by the recognition and measurement principles of the accounting framework.

If financial statements were to include future social benefit payments as a liability, the accounting framework would have to change substantially to allow the recognition of other expected future cash inflows and outflows. We would expect that if this were the case, the recognition and measurement techniques in the consultation paper would also apply to a wide range of other items.

While we acknowledge the importance of managing the fiscal sustainability of the provision of social benefit programs in the future, we do not believe the current recognition and measurement principles should be partially revised to allow this. If further work was to be done on reporting fiscal sustainability into the future, we believe it should be done as a separate reporting framework.

2. *Do you think that a present obligation to individuals or households arises at any time for*
  - a. *Collective goods and services; and/or*
  - b. *Individual goods or services?**If you think a present obligation does arise for either (a) or (b) or both please indicate reasons.*

- a) A present obligation arises for collective goods or services at a point in time at which there is a legal obligation to transfer goods and/or services to the eligible organisations that provide the inputs to the goods and/or services provided to the wider community. The present obligation arises because the government is then committed to a sacrifice of future economic benefits.
- b) A present obligation for individual goods or services occurs at the point in time when there is a legal obligation to transfer goods and/or services to the eligible individuals or households.

3. *Do you think that a present obligation to individuals or households in respect of cash transfers arises when all eligibility criteria have been satisfied for*
- a. *Non-contributory programs, and/or*
  - b. *Contributory programs*

*If you think a present obligation arises at an earlier point for (a) or (b) or both, indicate the point and reasons.*

- a) A present obligation for cash transfers to individuals or households participating in non-contributory programs does not necessarily occur at the time that eligibility criterion are met. The present obligation will only occur when the government has a legal obligation to transfer the cash to the eligible individual or household.
- b) The point of recognition of a present obligation should be the same for contributory as for non-contributory programs.

4. *Where a cash transfer program requires individuals or households to revalidate their entitlement to benefits, do you think revalidation is an attribute that should be taken into account in the measurement of the liability or a recognition criterion? Please state reasons*

Revalidation does not in itself bring about a present obligation. It will be a requirement that constituents revalidate their eligibility criterion as part of the process of qualifying for the payment of cash transfer payments in the future. The variable nature of differing programs, along with the fact that many programs rely on continuously meeting eligibility criteria would not in itself be an indicator of present obligation. A present obligation would arise at the time when the beneficiary is entitled to the cash transfer.

5. *Do you think that in developing requirements for recognition and measurement of social benefits the IPSASB should further explore the executory contract accounting model briefly outlined in key issue 6, state reasons.*

While we see the benefits of an “inter-period equity” approach, we do not see it as a substitute for the “assets and liabilities” approach that the Australian public sector adopts in accordance with IFRS.