



Ms Kris Peach
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Australian Bureau of Statistics (ABS) comments on IPSASB Exposure Draft Social Benefits

Dear Ms Peach,

1. The ABS appreciates the opportunity to comment on the International Public Sector Accounting Standards Board (IPSASB) Exposure Draft Social Benefits (ED 63). We appreciate the need to maximise harmonisation between Government Finance Statistics (GFS) and Generally Accepted Accounting Principles (GAAP). These comments are based on our knowledge of GFS concepts and issues, and viewing the exposure draft through this lens. The current standards used to compile GFS in Australia are the Australian System of Government Finances Statistics: Concepts, Sources and Methods, Australia (AGFS 15) and is available online [here](#):

Definition of Social Benefits

2. Paragraph BC 15 - BC 18 notes that ED 63 attempts to align the treatment of social benefits in IPSAS with the same similar concepts in GFS. These efforts are greatly appreciated, and help to minimise differences between public sector accounts and GFS. The classification of expenditure on social benefits is dependent on how these services are provided to households. Some of the expenditure categories of include:

- I. *Social benefits to households in goods and services*, which record the expenditure by government units on goods and services produced by market producers that are provided directly to households as social transfers in kind;
- II. *Current monetary transfers to households*, which record the cost of social benefits in cash to Australian residents. Current monetary transfers to households record payments by government to individuals or households, who are not required to provide any significant amount of goods or services in return (e.g. old age pensions and unemployment benefits);
- III. *Current grant expenses*, which records voluntary unrequited (non-exchange) transfers to government non-market providers of social benefits (such as public hospitals, schools);
- IV. *Other current transfers*, which records voluntary unrequited transfers to non-government non-market providers of social benefits (charities and other not for profit organisations).

The distinction between these categories is important because *social benefits to households in goods and services* is recorded as Government Final Consumption Expenditure in the System of National Accounts, while the other categories are not.

3. ABS notes that the definition of universally accessible services places emphasis on the eligibility criteria. are not included in the definition social benefits. AGFS15 places less emphasis on the eligibility criteria vs. universally accessible services distinction and more emphasis on the nature of the transaction and the sector of the recipient. An example of this is where ED 63 explicitly notes that 'Universal Healthcare Services' are not Social Benefits as they meet the definition for universally accessible services. Medicare is regarded as providing universal access to healthcare services in Australia. There is a set of eligibility criteria but it is broad and covers all people normally resident in Australia. Payment for services on the Medicare Benefit Schedule is classified as a social benefit to households in goods and services under AGFS standards.

Use of insurance approach

4. ED 63 proposes an insurance approach, based on the insurance accounting model, as being appropriate for some or all contributory social benefit schemes. Entities are permitted, but not required, to use this approach where a social benefit scheme meets certain criteria. The criteria are:

Social benefits to households in goods and services, which record the expenditure by government units on goods and services produced by market producers that are provided directly to households as social transfers in kind;

- I.
- II. The social benefit scheme is intended to be fully funded from contributions; and,
- III. there is evidence that the entity manages the scheme in the same way as an issuer of insurance contracts, including assessing the financial performance and financial position of the scheme on a regular basis.

ED 63 includes guidance on how to determine whether a social benefit scheme is intended to be fully funded from contributions. ED 63 also includes indicators to assist entities in determining whether they are managing a scheme in the same way as an issuer of insurance contracts.

5. ABS does not believe that are many significant social benefit schemes in Australia would meet the criteria to use the insurance approach. All major social benefit schemes in Australia are funded out of consolidated revenue and are not run like insurance schemes as is common in other major developed countries. Medicare, for example, is notionally funded through specific levies like the Medicare Levy and Medicare Levy Surcharge. While these generate significant revenue for the Commonwealth Government it does not fully fund the Medicare program and is not managed in the same way as an issuer of insurance contracts.

Use of Obligation event approach for recognition point.

6. ED 63 proposes a single recognition point for all social benefits. Under this approach a liability for a social benefit is recognised when the eligibility criteria to receive the next social benefit has been satisfied. The IPSASB believes that this criteria most closely aligns with a

definition of a liability. It was noted that not all IPSASB members agree with the requirements proposed in ED 63. In an Alternative View, some members propose that the obligating event should be dependent on the economic substance of the social benefit scheme. For some social benefits, recognising a liability when the eligibility criteria for the next benefit are satisfied will be appropriate. For others, a liability would be recognised at an earlier point.

7. To be suitable in the Australian context it would need to be considered when eligibility criteria were satisfied, particularly given Australian social benefit schemes are not contributory in nature. Using employment benefits as an example, a person may become unemployed and meet the criteria for eligibility but they would not begin receiving benefits until the person has formally applied and been approved to receive access to that social benefit. The application and approval for a social benefit could potentially be included as part of the eligibility criteria in the Australian context. ABS would prefer to use the alternate view, which considers the economic substance of the arrangements rather than using the same recognition point across all schemes. The alternate view is more coherent with macroeconomic principles used in GFS and thus allow for better harmonisation between the two standards.

8. Please contact Jonathon Khoo (email: j.khoo@abs.gov.au, ph: 07 3222 6142) if you would like to discuss this response further.

Kind regards,

A handwritten signature in black ink, appearing to read "Branko Vitas".

Branko Vitas

Branch Head
International and Government Financial Accounts Branch
Industry Statistics Division
Australian Bureau of Statistics.

