



INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS BOARD

PROJECT BRIEF AND OUTLINE

1. Subject—Social Benefits

- 1.1 This project will develop requirements and guidance for accounting for social benefits.
- 1.2 The IPSASB initially launched a project on social policy obligations in 2002. This led to the publication of an Invitation to Comment (ITC), *Accounting for Social Policies of Government*, in November 2003. Following an analysis of responses the IPSASB began to develop proposals for the recognition and measurement of different sub-categories of social benefits. The IPSASB tentatively agreed an approach in which:
 - A present obligation for cash transfers arises when all eligibility criteria have been satisfied;
 - No present obligation arises for what were termed collective good and services such as defense and individual goods and services such as education and health care; and
 - The amount of the liability that arises from a present obligation for cash transfers is the amount that the entity has no realistic alternative but to settle;
- 1.3 The IPSASB subsequently redeliberated this approach. Due to failure to agree on recognition points and measurement requirements for liabilities the IPSASB decided not to develop further proposals on recognition and measurement. As an interim step the IPSASB developed an Exposure Draft (ED) dealing with the disclosure of amounts to be transferred to those eligible at the reporting date for cash transfers (benefits settled in cash). It expressly did not require the disclosure of liabilities. ED 34, *Social Benefits: Disclosure of Cash Transfers to Individuals or Households* was issued in March 2008. At the same time the IPSASB issued a further Consultation Paper, *Social Benefits: Issues in Recognition and Measurement* and a project brief, *Long-Term Fiscal Sustainability Reporting*.
- 1.4 In October 2008 the IPSASB reviewed responses to all the above documents. In the light of these responses, it was decided not to further develop ED 34 into an IPSAS. The IPSASB also noted that a large majority of respondents agreed that the general purpose financial statements cannot convey sufficient information about the financial condition of governmental programs providing social benefits. In light of this view the IPSASB decided to initiate a project on long-term fiscal sustainability (subsequently re-termed 'Reporting on the Long-term Sustainability of Government Finances'). This led to the issue of a Consultation Paper in November 2009.

- 1.5 The IPSASB decided that proposals for recognition and measurement of social benefits were closely linked to work in Phase 2 of the Conceptual Framework project dealing with elements and recognition, particularly the definition of a liability. The IPSASB therefore decided to defer further work on social benefits until the Conceptual Framework project was further advanced.

2. Project Rationale and Objectives

- 2.1 Providing social benefits in non-exchange transactions is one of the most significant activities of many government and public sector entities. It is also one of the main areas that distinguishes the public sector from the for-profit private sector.
- 2.2 Currently, limited guidance exists on how to account for social benefits. Governments and public sector entities that recognize expenses and liabilities related to social benefits generally do so only for cash transfers on a 'due and payable' basis; that is to say liabilities are limited to installments for which all eligibility criteria have been met and which have not been settled at the reporting date. The lack of a conceptually sound and consistent approach to reporting for social benefits limits the overall quality and usefulness of public sector financial reports.
- 2.3 The objective of the project would be to develop comprehensive and conceptually sound requirements and guidance for accounting for social benefits that enhance the consistency of global financial reporting in this area.

International Guidance on this Topic

- 2.4 There is no authoritative international guidance dealing explicitly with this topic. It is not an area that has been addressed by the International Accounting Standards Board, nor is it on the IASB's current work plan or research agenda. Given that it is a public sector specific issue, it is highly unlikely to be addressed by the IASB.

National Guidance on this Topic

- 2.5 Some National Standards Setters (NSS) and Ministries of Finance (or equivalent) have guidance on approaches to social benefits. However, it appears that few, if any, NSS, Ministries of Finance (or equivalent) have in place authoritative requirements that deal with the full range of social benefits provided by public sector entities. The project development will include identification and consideration of authoritative guidance in IPSASB Member's and other jurisdictions, as appropriate.

Issues Identified

- 2.6 The main issues are:
- (a) To provide definitions of social benefits and their sub-categories;

- (b) To determine when expenses and liabilities arise in respect of these sub-categories;
- (c) To determine how to measure liabilities that arise in respect of these sub-categories; and
- (d) To identify appropriate disclosure requirements relating to social benefits and their sub-categories.

(b) Objectives to be achieved

- 2.7 The ultimate objective of the project is to develop an IPSAS that defines social benefits and sub-categories of social benefits and specifies requirements for the financial reporting of social benefits.
- 2.8 The intermediate objectives are to produce a Consultation Paper and ED. It may be questionable whether a further Consultation Paper is necessary in light of the ITC issued in 2003, the Consultation Paper issued in 2008 and the Phase 2 Conceptual Framework Consultation Paper, which addressed the key issue of the enforceability of obligations in a non-exchange context. This project brief assumes that the significance of this issue for the public sector necessitates the development and publication of a further Consultation Paper. If developed a Consultation Paper will discuss approaches to accounting for social benefits and, in particular, explore the point at which obligations and commitments become liabilities.

(c) Link to IFAC and IPSASB Strategic Plans

i. Link to IPSASB Strategy

Accounting for social benefits is one of the most pressing and complex public sector financial reporting issues. A project on accounting for social benefits would be in furtherance of the IPSASB's strategic theme of addressing public sector critical issues. As noted above, this project is currently in abeyance while the Conceptual Framework is further developed. Phase 2 of the Conceptual Framework is particularly relevant.

ii. Link to IFAC Strategic Plan

The IFAC Strategic Plan for 2011–2014 identifies 2 specific strategies that are relevant. The first is IFAC's commitment to the development, adoption and implementation of international standards, including those for the public sector. The second is an enhanced focus on public sector financial reporting. Developing requirements and guidance for accounting for social benefits supports both of these strategies.

3. Outline of the Project

(a) Project Scope

- 3.1 The scope of this project is to define and sub-classify social benefits, determine the appropriate accounting treatment for each sub-category of social benefits and develop relevant disclosures. This includes identification of the point at which present obligations related to the sub-categories of social benefits arise and the measurement of expenses and liabilities arising from such present obligations.

(b) Major Problems and Key Issues that Should be Addressed

Key Issue #1—The definition of social benefits and the sub-categorization of social benefits

- 3.2 The project has previously developed a definition of social benefits and sub-classified social benefits into collective goods and services, individual goods and services and cash transfers. Definitions have been developed for all these terms. Initial versions of these defined terms were first used during the development of the ITC in 2002. The purpose of these sub-categorizations and definitions was to facilitate an analysis of when present obligations arise for different types of social benefit. In considering the response to the 2008 Consultation Paper the Board questioned whether collective goods and services should be a defined term and a sub-category of social benefits. The Board noted that goods and services within this definition were not considered social benefits under statistical bases of accounting and that virtually all respondents agreed that present obligations did not arise for collective goods and services other than in a commercial exchange context.

Key Issue #2—When do present obligations arise for the different categories of social benefits?

- 3.3 A fundamental issue is to determine when present obligations arise for each category of social benefit. For programs that require the satisfaction of eligibility criteria is this at the point where all eligibility criteria have been satisfied or at an earlier point?
- 3.4 The 2008 Consultation Paper tentatively explored an alternative approach to accounting for social benefits by considering the view that social benefits are provided as part of a ‘grand’ executory contract between citizens and government. Under this model, both (a) governmental obligations to provide goods services and cash transfers to individuals or households and (b) the rights of individuals or households to receive those benefits, are acknowledged as commitments. However, such governmental obligations are effectively offset by the ongoing duty of individuals or households to contribute taxes and other sources of finance. Under this approach, liabilities would not arise until legal entitlements have been established.

- 3.5 The Consultation Paper highlighted both the advantages and problems with this approach. The consultation response indicated that many respondents saw merit in considering this model further. It would also need to be evaluated in the light of decisions to be made in Phase 2 of the Conceptual Framework on whether for non-exchange transactions liabilities should be limited to those obligations that are enforceable at the reporting date.

Key Issue #2(a)—In determining when present obligations arise should contributory programs be distinguished from non-contributory programs?

- 3.6 Some have a view that programs that require a specified level of contributions from beneficiaries in order to qualify for benefits are different in character from those that are non-contributory. Although such contributory programs do not give rise to exchange transactions, because the value of benefits received by beneficiaries may not be approximately equal to the value of contributions made, such programs are quasi-contractual in nature. This quasi-contractual nature, leads to different expectations on the part of beneficiaries than for non-contributory programs and means that a governments' ability to realistically avoid the obligation is more constrained than for non-contributory programs.

Key Issue #2(b)—What is the appropriate accounting treatment for programs that operate to provide both contributory benefits (known as social insurance in statistical accounting) and non-contributory benefits (known as social assistance in statistical accounting)

- 3.7 A further layer of complexity is introduced by the existence of highly significant programs that operate to provide contributory benefits, but also provide benefits to those who have not made the specified level of contributions; the latter mechanism is sometimes known as provision of a social minimum. If it is decided that present obligations arise at an earlier point for contributory programs than for non-contributory programs the accounting treatment of these complex programs becomes problematic and leads to the question whether bifurcation between contributory and non-contributory components is conceptually appropriate and, if so, practical.

Key Issue #3— Where a program requires individuals or households to revalidate their entitlement to benefits, is revalidation is an attribute that should be taken into account into account in the measurement of the liability or a recognition criterion?

- 3.8 Most social programs have eligibility conditions, which vary in number and complexity. The issue of whether the revalidation of eligibility conditions is a recognition criterion or a measurement attribute is fundamental in determining the amount of any liability. Adopting the position that revalidation is a recognition criterion limits the extent of any liability to the amount due until revalidation of eligibility conditions is next required. Conversely, treating revalidation as a measurement attribute means that the probability of continued revalidation of eligibility conditions is just one factor that is taken into account in the

measurement of a liability and therefore potentially leads to the recognition of much bigger amounts.

Key Issue #4—What are the appropriate disclosure requirements for social benefits?

- 3.9 A key issue will be to determine what disclosures are required, ensuring that such disclosures reflect the qualitative characteristics of financial reporting as proposed in Phase 1 of the Conceptual Framework project while mindful of the constraints on financial reporting.

4. Describe the Implications for any Specific Persons or Groups

(a) Relationship to IASB

- 4.1 The project is not directly linked to any IASB project. The approach during previous work on social benefits relied on a framework based on IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*. IPSAS 19 is based on IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. The IASB has a project on ‘Liabilities’, the eventual aim of which is to replace IAS 37. An ED, *Liabilities* was issued in January 2010 and a staff draft of an IFRS has also been made available by IASB. However, a finalized IFRS is unlikely to be issued until mid-year 2012 at the earliest.

(b) Relationship to Other Standards, Projects in Process or Planned

- 4.2 There would be limited impact on other Standards. Social benefits are currently outside the scope of IPSAS 19. There is a very strong link with the Conceptual Framework, especially Phase 2: Elements, particularly the discussion of liabilities, while decision on approaches to reporting financial performance will also have a strong bearing on the approach to accounting for social benefits.

(c) Other—Government Finance Statistics

- 4.3 One aspect of the IPSASB’s strategic theme of undertaking public sector specific projects is to consider convergence with the statistical basis of accounting where appropriate. The project will consider approaches to social benefits in the forthcoming revision of the Government Finance Statistics Manual and the European System of Accounts

5. Development Process, Project Timetable and Project Output

(a) Development Process

- 5.1 The development of outputs will be subject to the IPSASB’s formal due process. The issuance of documents for public comment will be subject to the usual IPSASB voting rules. As the reactivated project progresses, regular assessments will be made to confirm the proposed path in the project timetable remains the most appropriate.

(b) Project timetable

Major Project Milestones	Expected Completion
Present Project Brief	June 2011
Discussion of issues and development of a Consultation Paper (CP) (July 2011-March 2012)	March 2012
Approve CP (4 month comment period)	March 2012
Review of responses to CP and development of an Exposure Draft (July 2012–March 2013)	
Approve ED/EDs (4 month comment period)	March 2013
Review of responses to ED and development of a IPSAS/IPSASs (September 2013- March 2014)	
Approve Final IPSAS /IPSASs	2014

(c) Project output

- 5.2 The initial output will be a Consultation Paper. This will be followed by an ED. The ultimate output will be an IPSAS dealing with accounting for social benefits.

6. Resources Required

(a) Task Force/Subcommittee

- 6.1 A Task Based Group will assist in exploring the issues.

(b) Staff

- 6.2 It is envisaged that 0.5 Full Time Equivalent (FTE) will be required to resource the project.

(c) Factors that might add to complexity and length

- 6.3 Factors that might add to the complexity and length of the project include:
- a) The interaction between this project and the development of the Conceptual Framework and progress on the Conceptual Framework.

7. Important Sources of Information that Address the Matter being Proposed

- 7.1 Potential sources of information regarding GBEs include:
- a) National Standard Setters guidance on social benefits.
 - b) The Government Finance Statistics Manual.
 - c) The System of National Accounts (SNA) 2008.
 - d) The European System of Accounts.