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TO: MEMBERS OF THE TECHNICAL COMMITTEE

FROM: ELIZNA VAN DER WESTHUIZEN

SUBJECT: SOCIAL BENEFITS

DATE: 12 FEBRUARY 2025

FILE REF: ATTACHMENT 3(a)

BACKGROUND AND OBJECTIVE

1. Initial engagements on the comment received from stakeholders on ED 205 on *Proposed Standard of GRAP on Social Benefits* were held with the project groups, Technical Committee and Board in June and July 2024. The engagements discussed a key issue identified in the responses related to the potential complexity of the definition of social benefits – in particular, assessing the definition of social risk. On balance, the Board agreed that the definitions proposed in ED 205 should remain unchanged. This is discussed further in paragraphs 14 to 17 of this memorandum.

2. All the comment received on ED 205 are captured in the analyses and responses to verbal and written comment in attachments 3(d) and 3(e). The analyses and proposed final Standard of GRAP on *Social Benefits* (attachment 3(f)) were discussed with the project groups. The minutes of the project group meetings are included as attachments 3(b) and 3(c).

3. The purpose of this memorandum is for the Technical Committee to consider the following, for recommendation to the Board:

   a. the consultation process followed;

   b. proposed responses to the written and verbal comment received; and

   c. proposed final Standard of GRAP on *Social Benefits* (GRAP 111).

OVERVIEW OF THE CONSULTATION PROCESS

How did the Secretariat raise awareness of ED 205?

4. A Notice was published in the Government Gazette on 8 September 2023 (Notice 49280) with a comment period that closed on 17 November 2023. The Board approved

an extended comment period to 28 March 2024 to ensure all stakeholders have sufficient opportunity to comment on the ED.

5. The Secretariat actively raised awareness about ED 205 in the following ways:

   (a) published articles in the ASB Newsletter and on various ASB social media platforms;

   (b) published a recording on the ASB YouTube Channel and developed further supporting material for the ASB website; and

   (c) informed stakeholders through various engagements and forums, such as the Public Sector Accounting Forum and GRAP update sessions.

6. The Secretariat is of the view that sufficient awareness of ED 205 was raised.

Were all the key stakeholders consulted?

7. The Secretariat held 13 virtual roundtable discussions with preparers, auditors, consultants and other interested parties during the consultation period. Two rounds of engagements were held with most stakeholder groups to ensure they understood the proposals before providing comment. The roundtables included engagements with specific preparers and auditors of entities that could provide benefits in the scope of the ED. Stakeholders submitted 10 written responses to ED 205.

8. The Secretariat is of the view that all the stakeholders identified in the project brief had sufficient opportunity to participate in the due process.

ACTIONS REQUESTED #1

The Technical Committee is requested to NOTE the consultation process followed.

KEY ISSUES FOR CONSIDERATION

9. As noted in paragraph 2, the project groups considered the issues identified from the comment received on ED 205, and recommended responses thereto to the Technical Committee for consideration. The key issues and project group recommendations are discussed below.

10. Proposed changes to ED 205 are marked-up in attachment 5(f) for ease of review. The marked-up version will be published on the ASB website together with the analyses and responses to verbal and written comment. A clean version of GRAP 111 will be presented to the Board for approval in March 2025.

Scope of transactions

11. Some respondents noted it may be difficult to identify transactions in the scope of the Standard and they were unclear about in-kind benefits not being in the scope. There were also questions about when IFRS 17 on *Insurance Contracts* should be applied.

12. Minor changes are proposed to the Standard to emphasise and clarify:

    - The Standard only applies to cash social benefits.
    - IFRS 17 (and IFRS 4 on *Insurance Contracts)* only applies to transactions that are within the scope of those standards.

- The Standard does not apply to revenue related to social benefits or a liability that may arise from revenue related to social benefits.

13. It was also clarified in the responses to the comment and in the basis for conclusions that contributions for social benefits do not impact the assessment of whether a benefit is a social benefit or not, but does impact the classification of social benefits in the scope of the Standard.

Definitions - social benefits and social risks

14. Many respondents to ED 205 raised questions about the definition of social benefits. In particular, they expressed uncertainty about how to interpret and apply the social risks definition. They indicated it is difficult to understand when a benefit addresses a social risk, or another risk. This is mostly because it is difficult to identify when a risk relates *directly* to the characteristics of individuals and/or households and uncertainty about what those characteristics are. There were also questions about the interpretation of *the benefits are provided to meet the needs of society as a whole*.

15. After considering a range of alternatives, the Board agreed to retain the definitions proposed in ED 205. The primary reason was that the Board found the alternative proposed by the project groups and Technical Committee, as well as other alternatives, to be equally complex and requiring judgement. It was considered preferable to retain alignment of the definitions with IPSAS 42 on *Social Benefits* and the Government Finance Statistics Manual, as proposed in the ED. The Board agreed that other forms of guidance and initiatives could be used to assist entities with understanding the definition and the benefits that are in the scope of the Standard. For example, establishing a reference group to support the initial application of the Standard and developing implementation guidance as may be needed. It was also agreed that the Secretariat should stay close to issues that may arise during the implementation period.

16. To avoid entities unnecessarily assessing whether a benefit meets the definition of a social benefit when the benefit is not in the scope of the Standard, communication material will emphasise that the Standard only applies to cash benefits. Further minor clarifications were added to the Standard.

17. The project groups confirmed that the definitions will remain difficult in practice and noted the importance of support to all stakeholders during the implementation period. They supported the establishment of a Reference Group.

Classification of benefits

18. Many respondents supported classifying social benefits as either social security insurance benefits or social assistance benefits. Some raised questions about the proposed characteristics of each type of benefit and one respondent noted that a partially funded benefit may be managed in a manner different from a benefit that is wholly funded, therefore questioning the proposal for partial or fully funded benefits to be characterised as social security insurance benefits.

19. An explanation is added to the BCs that entities should apply judgement to determine whether contributions fund the social benefit - partially or fully - and compensate the entity for the social risk - partially or fully. There are many characteristics of both benefits and the lists are not exhaustive. How a benefit is funded is only one aspect of the

assessment. The characteristics of each benefit should be assessed holistically to determine whether the benefit meets the definition of social security insurance benefits.

Recognition requirements and contingent liabilities

20. Respondents raised questions and concerns with the proposed recognition requirements. Primarily:

- Whether a liability for events occurred but not reported to the entity could be reliably measured.
- Whether the proposed recognition before the entity has verified an application for payment would meet the definition of a liability. The obligation before this point may rather meet the definition of a contingent liability.
- Whether the cost outweighs the benefit.
- The estimation uncertainty results in large fluctuations in the income statement and potential unauthorised expenditure.
- The recognition point is not good governance and could lead to irregular expenditure as expenditure is recognised before an entity verified the application for payment.
- The recognition point overstates liabilities, resulting in unwarranted concerns about an entity's going concern.
- Users should be educated on the information that is appropriate for the obligation instead of basing the requirements on past and current practice.

21. After considering the above concerns, the project groups did not identify a clear need to change the proposed principles. Minor clarifications and additional guidance are proposed. The reasons for this conclusion are explained below. It should be noted that many respondents supported the proposals.

Liability versus contingent liability and user needs

22. Those respondents who suggested a contingent liability should be disclosed instead of a liability recognised at the proposed recognition points referred to the requirements of GRAP 19 on *Provisions, Contingent Liabilities and Contingent Assets.*

23. The basis for conclusions explains that the Board used the *Conceptual Framework for General Purpose Financial Reporting* to develop the ED. The recognition requirements were developed with reference to the two criteria in the Framework:

- the past event that gives rise to a present obligation occurs; and
- the present obligation can be measured reliably

and by considering the qualitative characteristics. The Framework also notes that probability is not considered in the recognition of a liability. A liability may be recognised even when the probability of an outflow of resources is low. This is different to the requirements in GRAP 19 where a low probability of an outflow is a contingent liability instead of a recognised liability.

24. The methodology applied to develop the recognition requirements is based on the Due Process Handbook and considers the information needs of users first and foremost.

25. Basis for conclusions paragraphs that referred to the Board favouring requirements that retain current accounting practices are amended to refer to the considerations in the Due Process Handbook when converging with international standards, which includes current accounting practices. The responses to comment also include that users are considered to have a basic understanding of the Standards and need not be "educated" on what their needs are.

26. A clarification is added to the basis for conclusions that when a transaction is in the scope of this Standard, an entity should not consider other Standards of GRAP to account for that same transaction, e.g. recognise a contingent liability before a liability is recognised in accordance with this Standard.

Reliable measure (estimation uncertainty) and cost versus benefit

27. The use of estimates is part of accrual accounting. Based on current practice and discussions with entities and actuaries, the Board determined the liability could be reliably measured at the proposed recognition points.

28. Further discussions with stakeholders during and after the consultation process confirmed this position.

29. As a result of current practice, it is known that actuaries need to be appointed (or employed) to measure the liability – particularly social security insurance benefit liabilities. It is also known that this information is needed by users. The assessment of cost versus benefit can be difficult and subjective. Although some stakeholders raised concerns about this, the Secretariat does not believe information obtained through the consultation process identified a need for the Board to change the requirements proposed in ED 205.

Unauthorised and irregular expenditure, good governance and going concern

30. In the accrual basis of accounting, the expense is recognised because the entity has a present obligation for an outflow of resources which does not result in an asset or other item. An entity estimates and adjusts the liability (and related expense) to the best estimate, until payment is made and the actual expense is reflected. The expense represents the service government provides to citizens to protect them against social risk. The ultimate payment represents the settlement of that liability. Payments should only be made after due verification. This approach in the ED is consistent with the Conceptual Framework and other Standards of GRAP.

31. An entity should provide sufficient information and context in the accounting policies and notes for a user to understand the numbers and an entity's going concern assessment.

32. For the reasons above, no changes are proposed to the ED.

"Boundaries" of social benefit liabilities

33. A respondent to ED 205 questioned the approach to consider the verification of substantive ongoing eligibility criteria as part of recognising a liability. They considered that recognising a new liability for an existing beneficiary meeting substantive eligibility criteria at a future date could be contrary to the initial recognition requirements, which require the recognition of a liability before an application is verified to meet all eligibility criteria.

34. The project groups noted that the "boundary" (as exposed in ED 205) was developed to provide users with useful information about an entity's present obligation to provide social benefits at the reporting date, i.e. the best estimate of the costs (social benefit payments) that an entity will incur in fulfilling the present obligation / the amount that the entity would rationally pay to settle the obligation at the reporting date. Respondents to ED 205 confirmed that the information that will be provided by the ED is appropriate - the inclusion of a "boundary" was in principle supported by all respondents. The project groups therefore agreed that the information provided by ED 205 should not be amended.

35. The project groups agreed with the concern explained in paragraph .33. A new liability should only be recognised when there is a new past event and the Board determined the past event to be the occurrence of the event related to the social risk for all social benefits (see paragraph AG26.). To address the concern while retaining the principle in paragraph 34, the project group proposes to amend ED 205 so that an entity's verification of substantive ongoing eligibility criteria in future is considered in measuring a liability, such that the measurement of any potential payments beyond the next point of verification is zero (see paragraph .21 and AG35.). An explanation is included in paragraphs BC46A. and BC46B.

Disclosure requirements

36. The majority of respondents supported the proposed disclosure requirements, including the Board's decision to not require the disclosure of a sensitivity analysis. However, some respondents questioned the reasons for not requiring a sensitivity analysis.

37. Given the support for the proposals, the project groups propose to retain the requirements of ED 205. Information about the expected effect of social benefits on the amount, timing and uncertainty of the entity's future cash flows that will be useful to users is already required by ED 205 and GRAP 1.38 requires an entity to consider whether additional disclosures are needed when compliance with the specific requirements in a Standard of GRAP is insufficient to enable the users of financial statements to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance. This is clarified in the responses to comment and paragraph BC55.

ACTIONS REQUESTED #2

The Technical Committee is requested to:

(a) CONSIDER the proposed responses and amendments to ED 205 for the issues identified (attachments 3(d) to 3(f)); and

(b) if deemed appropriate, RECOMMEND them to the Board.

GRAP NUMBER

38. In accordance with the ASB's Due Process Handbook, a GRAP Standard that is converged with an IPSAS is given the same number as the IPSAS. Where a Standard of GRAP is primarily developed to meet local needs and there is no IPSAS equivalent, the Standard is assigned a number in a series of Standards of GRAP starting with 100.

39. ED 205 was exposed as a proposed Standard developed based on IPSAS 42 on *Social Benefits.* The Comparison with IPSAS 42 indicated the main differences between ED 205 and IPSAS 42.

40. The Secretariat assessed the differences between the proposed final Standard (attachment 3(f)) and IPSAS 42 and found them to be significant. The Secretariat concludes that, although IPSAS 42 was used as a starting point, the proposed Standard is not an IPSAS aligned Standard. It is therefore proposed that the Standard be numbered GRAP 111 on *Social Benefits.* The acknowledgement of IPSAS 42 upfront will be retained, as IPSAS 42 was used in certain areas such as the definitions. This approach is similar to other Standards in the 100-series, e.g. GRAP 105 to GRAP 107 on transfers of functions and mergers.

ACTIONS REQUESTED #3

The Technical Committee is requested to NOTE the proposed number of the Standard.

RE-EXPOSURE OF ED 205

41. The project groups considered the Secretariat's analysis of the amendments made to ED 205 as a result of responding to the comment received from the public consultation process by applying section 7 of the Due Process Handbook.

42. The project groups agreed with the Secretariat that re-exposure of ED 205 is not required for the following reasons:

(a) No substantial changes have been made which arise from matters not included in the Exposure Draft, such that respondents did not have an opportunity to make their views known before the Board reaches a final decision.

All amendments made respond to comment received on ED 205.

(b) No substantial changes have been made because of matters not previously deliberated by the Board, such that respondents did not have an opportunity to make their views known before the Board reaches a final decision.

The amendments made relate to matters previously deliberated by the Board and clarify the principles or explain the reasons for the Board's conclusions.

(c) Substantial changes have been made to the substance of a proposed pronouncement because of the re-deliberation of issues by the Board considering comments received.

The only amendment considered to be potentially substantial and worth assessing specifically in this category is that the verification of substantive ongoing eligibility criteria affects the measurement of social benefit liabilities instead of recognition. This amendment was not considered a substantial change to the substance of the principles exposed for comment. The change better links recognition to the past event the Board agreed on in ED 205 (the occurrence of the event related to the social risk) and reflects the best estimate of the costs (social benefit payments) that an entity will incur in fulfilling the present obligation (i.e. the amount that the entity would rationally pay to settle the obligation at the reporting date).

ACTIONS REQUESTED #4

The Technical Committee is requested to CONSIDER and, if deemed appropriate, RECOMMEND the conclusion on re-exposure of ED 205 to the Board.

NEXT STEPS

43. The Board will consider the proposed responses and final Standard of GRAP on *Social Benefits* in March 2025. Once the Standard is approved, the Secretariat will commence the next phase of the project to develop an Exposure Draft on the transitional provisions and effective date of the Standard.