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1TO: MEMBERS OF THE TECHNICAL COMMITTEE
FROM: ELIZNA VAN DER WESTHUIZEN
SUBJECT: SOCIAL BENEFITS
DATE: 20 JUNE 2024
FILE REF: ATTACHMENT 4(a)

BACKGROUND AND OBJECTIVE

1. The Board approved ED 205 on *Proposed Standard of GRAP on Social Benefits* in July 2023 with a comment deadline of 17 November 2023. Initial consultations with stakeholders revealed that more time was needed to consult, because the ED is complex and multiple engagements with the same stakeholders were necessary to ensure they understand the proposals. An extension of the comment deadline was necessary to ensure the Board received quality input on the ED. The Board approved an extended deadline of 28 March 2024.
2. The comment received from stakeholders on ED 205 is captured in the analyses and responses to verbal and written comment in attachments 4(b) and 4(c). The analyses are included for information purposes only. A detailed review of the comment received and a discussion on proposed responses will be conducted with the Technical Committee at a future meeting and are not required at this time. ED 205 (as exposed for comment) is included as attachment 4(d) for information purposes.
3. The purpose of this memorandum is for the Technical Committee to consider the way forward on a key issue identified from an initial review of the comment received. The issue relates to the definition of social benefits.
4. The Secretariat held three project group meetings to discuss the issue. The minutes are included as attachments 4(e) to 4(g) for information purposes. The project group recommendations are included in this memorandum. Based on the agreed way forward, the Secretariat will finalise the responses to ED 205 after July 2024. The Standard based on the finalised responses will be compared to ED 205 to determine if re-exposure is necessary, by applying the criteria in the Due Process Handbook.

Board Members: Mr A van der Burgh (Chair), Ms A Carstens, Mr A Hardien, Ms W de Jager,
Mr D Dlamini, Mr S Gcwabe, Mr S Khan, Ms A Muller, Ms L Senne, Prof R Small
Chief Executive Officer: Mrs J Poggiolini

DEFINITION OF SOCIAL BENEFITS

5. In developing ED 205, the Board agreed to align the definition of social benefits with IPSAS 42 on *Social Benefits*, but to include cash and in-kind benefits. IPSAS 42 defines social benefits as only cash benefits. The scope of ED 205 was, however, limited to cash social benefits, which aligns with IPSAS 42. IPSAS 42 used concepts from the Government Finance Statistics Manual (GFS) to develop the definition. The Board further distinguished social benefits as “social assistance benefits” and “social security insurance benefits” in ED 205 – both are concepts from GFS. These concepts are not in IPSAS 42. Basing the definitions on existing literature had the benefit of enhancing constituents’ understanding and meeting the information needs of users such as central government and others.
6. Paragraph .07 of ED 205 defines social benefits and social risks as:
Social benefits are cash transfers and in-kind benefits provided to:
 - (a) *specific individuals and/or households who meet eligibility criteria;*
 - (b) *mitigate the effect of social risks; and*
 - (c) *address the needs of society as a whole.****Social risks*** are events or circumstances that:
 - (a) *relate directly to the characteristics of individuals and/or households, for example, age, health, poverty and employment status; and*
 - (b) *may adversely affect the welfare of individuals and/or households, either by imposing additional demands on their resources or by reducing their income.*
7. As part of the early decisions on the ED explained in paragraph 5, local benefits were analysed to understand the impact of the ED on our environment. The entities likely affected by the ED and their auditors were specifically consulted. They include the Unemployment Insurance Fund, Compensation Fund, Department of Social Development, National Student Financial Aid Scheme and National Home Builders Registration Council. The Road Accident Fund was also consulted as some of their benefits may be in-kind social benefits and future benefits may meet the definition in ED 205.
8. 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*.

Social risks

9. Some respondents who raised issues with the definition of social risks included proposals to resolve the issues. The Secretariat analysed these proposals, together with other possible actions, to determine potential ways forward. The potential ways forward broadly included (a) foregoing the concept of social risks, (b) amending the definition to

provide more clarity, or (c) retaining the definition as is and adding guidance. The response that will best address the issue is to amend the definition of social risks.



(a) Remove social risks

- This is a key element of the definition and necessary to distinguish social benefits from other benefits, such as those in GRAP 19 and IFRS 17.
- Without the concept, it would be more difficult to identify social benefits and apply the Standard.



(b) Amend the definition

- Through this action, clarity can be provided about the characteristics of individuals and/or households to which social risks relate.
- There is an opportunity to align further with GFS, which enhances the understanding of the scope of the Standard by drawing on existing literature.



(c) Retain the definition as is and add guidance

- The issue cannot be fully resolved without amending the definition as the examples of characteristics of individuals and/or households to which social risks relate (age, health, poverty and employment status) cause difficulty in identifying when the definition is met.

10. From the comment received, the Secretariat identified two areas to clarify in the definition of social risks, as follows:

1. When risks relate *directly* to the characteristics of individuals and/or households: add application guidance.
2. What the characteristics of individuals and/or households are to which social risks relate: change the definition to include an exhaustive list of characteristics.

1. Add application guidance on when risks relate *directly* to the characteristics of individuals and/or households

11. *Action proposed to the Technical Committee:* To assist with assessing when a benefit is provided to mitigate the effects of a risk that relates *directly* to the characteristics of individuals and/or households (as opposed to indirectly), the Project Groups recommend adding application guidance. The guidance should explain that an entity considers government's intention and reason for providing the benefit, i.e. the nature of the event that results in government providing a benefit is assessed. This will resolve the issues with distinguishing, for example, emergency relief from social benefits.

12. *Proposed alternative not recommended:* A project group member proposed that the assessment is changed to whether a benefit is provided to mitigate the effects of a risk that relates *indirectly* to the characteristics of individuals/households, with the view that this will be easier to assess than whether the risk relates *directly* to the characteristics. The Secretariat does not support this proposal, because the Secretariat believes this change will make it even more difficult to identify and distinguish social benefits from other benefits. Ultimately, almost all of government's activities can be argued to indirectly relate to the named characteristics.

2. Change the definition to include an exhaustive list of characteristics

13. A main concern with the characteristics of individuals and/or households to which social risks relate is that the current examples in the definition (*age, health, poverty and*

employment status) make the assessment difficult as the list is not exhaustive and it is unclear what other characteristics may need to be considered.

14. Based on stakeholder recommendations to ED 205, the Project Groups recommend changing the list of examples to an exhaustive list. Although this may not be the usual route for a standard-setter, it is admittedly difficult to assess social risks without knowing all the characteristics of the individual/household that social risks address. This action will resolve this issue by drawing a clear boundary around social benefits in the scope of the Standard.
15. In order to develop an exhaustive list of characteristics, various sources were considered, including the Bill of Rights (Constitution), social assistance as described in the Social Assistance Act, human rights as described by the Human Rights section of the United Nations (UN) and GFS. See **Appendix A** of this memorandum for more information.
16. The Project Groups recommend changing the social risks definition to include the examples from GFS. The circumstances of “*sickness, unemployment, retirement, housing, education or family circumstances*” should be included as an exhaustive list. This list will replace “*age, health, poverty and employment status*” as in ED 205.
17. The noticeable difference is the proposed list explicitly includes housing and education. The Secretariat previously considered housing benefits to be implicitly included, but there has been uncertainty about the extent to which education-related benefits would meet the definition. In addition to providing clarity on the definition, closer alignment with GFS in the local Standard is beneficial, as noted in paragraph 5.
18. Contrary to the benefits of the change explained above, the negatives are that there would be a change in benefits that meet the definition from ED 205, and potentially a step further away from IPSAS 42. It would likely be necessary to consult entities providing the benefits previously excluded to ensure the proposed requirements can be applied. It should be noted that the added benefits – housing and education – are expected to mostly be provided in-kind and therefore not in the scope of the Standard.

ACTIONS REQUESTED #1

The Technical Committee is requested to:

- (a) CONSIDER the proposal to add application guidance and change the definition of social risks as explained above, and**
- (b) RECOMMEND a way forward to the Board for consideration.**

Address the needs of society as a whole

19. Some respondents questioned the need to explain social benefits as addressing the needs of society as a whole. As explained in ED 205, the key reasons to include this element in the definition is to explain social benefits are government’s response to social risks in a way that relieves the needs of the most vulnerable in society in a way that is affordable and sustainable, and so that other benefits that are determined through an individualised process are excluded from the scope of the Standard. These include insurance benefits, legal claims and employee benefits.

20. The advantage of removing this from the definition would be that it may be easier to assess the definition. The difficulty would be that it may be more difficult to distinguish benefits that meet the definition of social benefits from benefits in the scope of other Standards, such as IFRS 17 on *Insurance Contracts*, GRAP 19 on *Provisions, Contingent Liabilities and Contingent Assets* and GRAP 25 on *Employee Benefits*. The distinction may be even more difficult should the changes to social risks explained above be made.
21. The Project Groups recommend retaining “address the needs of society as a whole” as an element of the definition.

ACTIONS REQUESTED #2

The Technical Committee is requested to CONSIDER the proposal to retain “address the needs of society as a whole” in the definition of social benefits and RECOMMEND a way forward to the Board.

OTHER ISSUES

22. An initial review of other issues raised with ED 205 identified areas where the principles in the ED could be clarified or additional guidance could be provided. None of these were found to require significant amendments to the principles.

NEXT STEPS

23. A full discussion of the comment received and the Secretariat’s proposed responses thereto will be held with the Project Groups after the July 2024 Board meeting. The Secretariat proposes that these meetings are held in October 2024. Key entities involved in the project – such as the UIF and Compensation Fund - have indicated it would be difficult for them to meet in the next quarter. Both these entities received approval to submit their 2023/24 financial statements late, and will be undergoing their annual audits in the next quarter.
24. The Secretariat proposes that the comment, proposed responses and amended Standard are presented to the Technical Committee and Board for approval as a final Standard or for re-exposure in November and December 2024 respectively.

APPENDIX A

Sources considered to describe the characteristics of individuals and/or households to which social risks relate

Source	Description	Appropriateness for the Standard
Bill of Rights (Constitution)	Contains a broad range of rights and many are interlinked. These rights include life, dignity, housing, food, water, security, protection of minors, education, equality, language, culture, freedom (of religion, expression, association, etc.), privacy, environment, etc. There are 29 rights and all are seen to have equal "status"/importance.	Not appropriate. Human rights per the Bill of Rights and the UN are generally broad (circa 30 rights), without any hierarchy, and government does not respond to all these rights through social benefits.
Social Assistance Act	This act describes the grants to be provided as social assistance, including social relief in distress. These are the grants provided by the Department of Social Development.	Not appropriate. The Act is focussed on social grants only.
The Human Rights section of the United Nations	Human rights include the right to life and liberty, freedom from slavery and torture, freedom of opinion and expression, the right to work and education, and many more. The United Nations has defined a broad range of internationally accepted rights, including civil, cultural, economic, political and social rights. The list of "basic human rights" consists of 30 rights.	Not appropriate. See Bill of Rights above.
GFS	Social risks are, for example, related to sickness, unemployment, retirement, housing, education, or family circumstances.	The GFS list of examples of the circumstances social risks relate to include housing and education. The Secretariat previously considered housing to be included in social risks although this was not explicit in the definition, and have received many questions about education.