Social Security Scotland
Tèarainteachd Shòisealta Alba

Audit and Assurance Committee	
Date of Meeting	14th May 2024
Subject	2023-24 Approach to Accounts preparation and Accounting Policies
Agenda No.	
Paper No.	
Prepared By	Head of Finance
Purpose	Decide

1. Background

1.1. The accounting policies are disclosed in the notes to the Annual Accounts. They should follow the principles of International Accounting Standard 8 - Accounting Policies, Changes in Accounting Estimates and Errors.

1.2. The Finance Team conducted a lessons learned exercise following completion of the 2022-23 Annual Report and Accounts process, which involved a number of stakeholders across the organisation.

1.3. Updates to the Accounting Policies were discussed at a Technical Accounting Session held on 11th March 2024 which was attended by a number of finance. A detailed exercise was conducted where a number of revisions were proposed to streamline the accounting policies and remove duplications. These have been included in the revised policies at Annex A.

2. Key points

2.1. The proposed Accounting Policies for 2023-24 can be found at Annex A.

2.2. The main changes proposed are:

- Accounting Standards Issued, not yet adopted has been removed - the only Standard noted here previously was Insurance Contracts which we do not believe will be significant for us when it is adopted.
- Employee Benefits short term has been removed as we do not believe the value for this is significant enough to warrant its own Accounting Policy – essentially this is covered by the general policy on Accounting Convention
- Policies for Provisions and Contingent Liabilities have been merged
- Policies for Property, Plant and Equipment and Intangible Assets have been merged into Non-Current Assets

2.3. The following policies have been significantly streamlined:

- Going Concern
- Accounting Estimation Techniques
- Intangible Assets

- Benefits Payment Recognition
- Impairment of benefit overpayments
- Leases

3. Conclusions

The Committee is asked to confirm that the Accounting Policies are appropriate for the 2023-24 accounts.

Meeting (23-24) (Approach to Accounts preparation and Accounting Policies)

ANNEX A

Notes to the Accounts

1.1 Basis of preparation

The financial statements have been prepared in accordance with:

- HM Treasury's 2023-24 Government Financial Reporting Manual (FReM)[1]
- the Accounts Direction issued by Scottish Ministers

The accounting policies and, where necessary, estimation techniques are selected in accordance with the principles set out in International Accounting Standard (IAS) 8.[2] The policies and techniques have been applied consistently in dealing with items considered material in relation to the accounts. The financial statements are prepared in Pound Sterling (GBP £), which is Social Security Scotland's functional currency. A transaction which is denominated in a foreign currency is translated into the functional currency at the spot exchange rate on the date of the transaction.

1.2 Accounting standards, interpretations and amendments

We have adopted all International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), International Financial Reporting Interpretations Committee (IFRIC) interpretations and amendments to published standards that were effective at 31 March 2024. We have also taken into account the specific interpretations and adaptations included in the Financial Reporting Manual (FReM).

1.3 Accounting convention

These financial statements are prepared on an accrual basis under the historical cost convention.

1.4 Going Concern

The accounts are prepared on the going concern basis, which assumes that we will continue in operational existence for the foreseeable future.

Our funding for 2024-25 has been approved by the Scottish Parliament.

[1] The Financial Reporting Manual applies International Financial Reporting Standards as adapted or interpreted for the public sector context
[2] International Accounting Standard 8 - Accounting Policies, Changes in Accounting Estimates and Errors

1.5 Accounting estimation techniques

The financial statements are prepared by making judgements, estimates and assumptions.

1.6 Value Added Tax

Administration Costs are stated net of value added tax where it is recoverable. Social Security Scotland is registered for value added tax as part of the Scottish Government which is responsible for recovering value added tax from HM Revenue and Customs.

1.7 Pensions

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) which is an unfunded multi-employer defined benefit scheme.

The scheme is accounted for as a defined contribution scheme under the multi-employer exemption permitted in IAS 19 Employee Benefits. The expected cost of providing pensions for our employees is recognised on a systematic and rational basis over the period during which they benefit from their services by payment to the PCSPS of an amount calculated on an accruing basis (see also disclosures made in the Remuneration and Staff Report). Liability for the payment of future benefits is a charge on the PCSPS. Payments to the defined contribution schemes are expensed as they become payable.

1.8 Benefit payments recognition

All benefits are paid through the Department for Work and Pension's central payment system with the exception of Carer's Allowance Supplement which is paid through the Scottish Government's finance system, and Best Start Foods which is paid through a third party supplier.

Benefits delivered through Social Security Scotland

When an application is made and approved the benefits expenditure will be recognised from the application date. Adjustment is made on a monthly basis for identified overpayments, accruals and prepayments along with a final year end adjustment for claims paid in April that had an application date in March or earlier. Best Start Foods is recognised on a cash basis as payments are made every 4 weeks via a third party.

Some benefits do not require an application to be made and are paid seasonally or automatically following confirmation of receipt of a qualifying benefit. Expenditure for these is recognised at the qualifying date and year-end adjustments done for payments we anticipate to make at a future date.

Benefits delivered through Agency Agreements with the Department for Work and Pensions (until their replacements are fully managed by Social Security Scotland)

Adjustment is made on a monthly basis for identified overpayments, accruals and prepayments along with a final year end adjustment.

1.9 Segmental Reporting

We report on three segments – Administration costs, Formal Agreements with the Department for Work and Pensions and Programme costs. Administration Costs and Formal Agreements are detailed in notes 2 and 3. Programme costs, which represent our Benefit Expenditure, are detailed in Note 4.

1.10 Non-current assets

Property, Plant and Equipment and Intangible assets are accounted for as non-current assets as they are not deemed to be held for sale.

Property, Plant and Equipment

Expenditure on information technology, plant and equipment is capitalised when an item is capable of being physically verified and tracked. In most cases, expenditure below £5,000 will not be capitalised, however we may choose to capitalise information technology hardware that can be identified on the network.

Depreciated historic cost has been used as a proxy for the fair value of Property, Plant and Equipment assets as permitted by IFRS 13.

Depreciation for leasehold improvements is provided, in the year following transfer or purchase, over the shorter of asset life or lease term. For Plant and Equipment depreciation is calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life , between 3 – 10 years, depending on the asset classification.

Assets Under Construction are not depreciated until they are brought into use.

Intangible assets

These assets are capitalised under IAS 38 if expenditure is greater than £5,000.

Intangible assets recognised by the organisation are valued at historic cost and depreciated over the expected useful life, between 5 – 10 years, depending on the asset classification

1.11 Benefit overpayments

These are recognised when the associated case has been assessed either by Social Security Scotland or Department for Work and Pensions. Social Security Scotland does not account for omitted, pending or potential debt.

Debt for those devolved benefits delivered through Agency Agreement is recovered by the Department for Work and Pensions under their policies. Overpayments under £65 and those relating to official errors which are not large or obvious are written off.

1.12 Impairment of benefit overpayments

These are reviewed annually for impairment, in line with IFRS 9. Social Security Scotland use the Department for Work and Pensions methodology for benefit overpayments managed by Department for Work and Pensions under Agency Agreements as there is no access to the level of information required to maintain its own model. The assessment of the recoverability of benefit overpayments and the associated expected credit losses is a complex matter, dealing with uncertain outcomes, assumptions regarding probability and estimation of volatile contributing factors. All evidence and assumptions used to calculate the impairment are the best available at the time.

1.13 Trade Other Receivables and Prepayments

Assets held by Social Security Scotland have been classified as trade and other receivables and prepayments. These have been measured at amortised cost, using the effective interest method. As the cash requirements of Social Security Scotland are met through the Scottish Government, financial instruments play a more limited role in creating and managing risk than would apply to a non-public sector body. The majority of financial instruments relate to contracts to buy non-financial items in line with Social Security Scotland’s expected purchase and usage requirement; Social Security Scotland is therefore exposed to little credit, liquidity or market risk.

As at 31 March 2024 Social Security Scotland has no significant exposure to foreign currency risk.

1.14 Leases

IFRS 16 is applied when accounting for leases.

Initial Recognition

At the inception of a contract, we assess whether a contract is, or contains, a lease. IFRS 16 defines a lease as a contract that 'conveys the right to control the use of an identified asset for a period of time in exchange for consideration.' The FReM expands this to include arrangements with £nil consideration.

We assess whether:

- the contract involves the use of an identified asset;
- we have the right to obtain substantially all of the economic benefit from the use of the asset throughout the period of use; and
- we have the right to direct the use of the asset.

We have elected not to recognise right of use assets and lease liabilities for the following leases:

- non-lease components of contracts where applicable
- low value assets (determined to be in line with capitalisation thresholds on property, plant and equipment, except for vehicles); and
- leases with a lease term of 12 months or less

Right of Use Asset

At the commencement of a lease, Social Security Scotland recognises a right-of-use asset and a lease liability. The right-of-use asset is measured at the value of the liability, adjusted for:

- any payments made or amounts accrued before the commencement date;
- lease incentives received; and
- any disposal costs at the end of the lease.

The cost measurement model in IFRS 16 is used as an appropriate proxy for our existing leases. The right of use asset is depreciated using the straight-line method. The estimated useful lives of the right of use assets are determined on the same basis as those of property, plant and equipment assets.

Lease Liabilities

Each lease liability is measured at the present value of the lease payments that are not paid at the commencement date. We have applied the HMT treasury discount rate as the interest rate for each lease cannot be readily determined. Lease payments included in the measurement lease liability comprise of:

- fixed lease payments (set for the duration of our lease agreements)
- rent-free periods, and rent incentives we have received
- the option to extend our current leases if we are reasonably certain to exercise an extension option

Remeasurement

At the lease commencement date, contracts which contain a lease component are assessed to determine whether it is reasonably certain to exercise break options or extension options. We reassess this if there are significant events or changes in circumstances that were not anticipated.

When the lease liability is re-measured, a corresponding adjustment is made to the right of use asset or recorded in the Statement of Comprehensive Net Expenditure (SoCNE), if the carrying amount of the right of use asset is £nil.

Operating Leases

These costs are treated as operating leases and charged to the SoCNE. We have operating leases for photocopiers and leases for premises which do not meet the criteria set out in IFRS 16 Leases.

1.15 Provisions and Contingent Liabilities

IAS 37 Provisions, Contingent Liabilities and Contingent Assets applies in full, whereby provisions are made for legal or constructive obligations which are of uncertain timing or amount at the statement of financial position date. Provisions reflect the best estimate of the expenditure required to settle the obligation. Benefit provisions for underpayments arise from ongoing legal cases or from internal procedures such as Legal Entitlement and Administrative Practices (LEAP) at the Department for Work and Pensions or Scottish Administrative Exercises in Scotland. These provisions are estimated using data provided by analysts which is based on sampling and other analytical data.

Contingent liabilities are disclosed in accordance with IAS 37. Where the time value of money is material, those contingent liabilities are discounted, and the amount reported to Scottish Parliament will be noted separately.

ANNEX A