Social Security Scotland
Tèarainteachd Shòisealta Alba

Audit and Assurance Committee	
Date of Meeting	Tuesday 17 May 2022
Subject	2021-22 Approach to Accounts preparation and Accounting Policies
Agenda No.	7
Paper No.	17.6
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 2020-21 Annual Report and Accounts process, involving other staff in other parts of the organisation.

1.3. Updates to the Accounting Policies were discussed at a Technical Accounting Session held on 3 March 2022 which was attended by a number of finance staff and, although broadly in line with the previous year, some amendments and revisions were proposed and these have been included in the revised policies at Annex A.

2. Key points

2.1. The proposed Accounting Policies for 2021-22 can be found at Annex A. The following changes are proposed:

- **Accounting standards, interpretations and amendments** – this note has been amended and details of Social Security Scotland's leases have been moved to the Leases section.
- **Property Plant & Equipment** – this note now has additional disclosure added relating to Social Security Scotland's Assets Under Construction depreciation policy and the policy for assets which have been impaired. For Assets Under Construction the policy is that they will not be depreciated until they are brought into use. Assets identified as being impaired are written down at historic cost less accumulated depreciation.
- **Intangible assets** – this section has been revised and now includes disclosure in relation to Social Security Scotland's policy for recognising intangible assets in accordance with IAS 38.

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- **Benefit payments spanning across the Transfer of Executive Competence** – this section has been removed as it is no longer relevant in 2021-22.
- **Benefit payments recognition** – Best Start Foods now has further information on how this benefit is recognised.
- **Leases** – this section has been amended and information regarding Social Security Scotland's leases previously under 'Accounting standards, interpretations and amendments' now sits under this heading. Additional disclosure has also been provided on the likely impact on the Statement of Financial Position.
- **Segmental Reporting** – this narrative has been revised as we will now be reporting on three segments - adding Department for Work and Pensions Agency Agreement costs as a segment.

3. Conclusions

The Committee is asked to confirm that the Accounting Policies are appropriate for the 2021-22 accounts.

ANNEX A

Notes to the Accounts

1.1 Basis of preparation

The financial statements have been prepared in accordance with:

- HM Treasury's 2021-22 Government Financial Reporting Manual[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 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, International Accounting Standards (IAS), International Financial Reporting Interpretations Committee (IFRIC) interpretations and amendments to published standards that were effective at 31 March 2022. We have also taken into account the specific interpretations and adaptations included in the Financial Reporting Manual.

Social Security Scotland will adopt International Financial Reporting Standard 16 (Leases) from 1 April 2022 which will replace International Accounting Standard 17 (Leases). The impact of this will be to eliminate accounting for operating leases, and recognise the value of all leased and 'right of use' assets. Information on this change is contained in Note 1.14.

International Financial Reporting Standard 17 (Insurance Contracts) is expected to be effective from 1 April 2023. It replaces International Financial Reporting Standard 4 (Insurance Contracts). Guidance has yet to be issued to government departments on the interpretation of this standard. We do not expect that there will be any impact on our accounts.

[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

1.3 Accounting convention

These financial statements are prepared on an accrual basis under the historical cost convention modified to account for the revaluation of property, plant and equipment, intangible assets, and some financial assets and liabilities.

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. The Statement of Financial Position for 2021-22 shows the taxpayers' equity as a liability. This has arisen as a result of the requirement to account for our activities on an accruals basis, whilst recording funding from the Scottish Government on a cash basis. Our funding for 2022-23 has been approved by the Scottish Parliament. The funding position from 2023-24 will be included within the Scottish Government's Spending Review.

1.5 Accounting estimation techniques

The assets, liabilities, income and expenditure shown in these financial statements are prepared by making judgements, estimates and assumptions. The area where there is the highest degree of complexity is in relation to the impairment of benefit receivables. Most of these receivables are being recovered by the Department for Work and Pensions who maintain a model that calculates impairment for all these benefits. We also use this as we do not have access to the case information to allow us to maintain our 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. There is a possibility that this estimate may vary as a result of the COVID-19 pandemic, however, it is not possible to understand its full impact. All evidence and assumptions used to calculate the impairment are the best available at this time.

1.6 Property, Plant and Equipment

These assets are accounted for as non-current assets as they are not deemed to be held for sale. Social Security Scotland does not own any land or buildings; office accommodation in Glasgow and Dundee are occupied under the terms of lease agreements. 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 IT hardware items 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 International Financial Reporting Standard 13[3]. Depreciation is provided, in the year following transfer or purchase, at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life as follows:

Class	**Years**
Information technology	3-5
Office equipment	5
Fixtures and fittings	10
Leasehold improvements	Shorter of asset life or lease term

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

An asset identified as being damaged beyond repair during an impairment review is written down at historic cost less accumulated depreciation.

1.7 Intangible assets

These assets are capitalised under IAS 38 if expenditure is greater than £5,000. They are primarily our case management system licences and cloud infrastructure and not Software-As-A-Service arrangements. Intangible assets recognised by the organisation are valued at historic cost and amortised as follows.

Class	**Years**
Information Technology Infrastructure	5
Software Licences (finite time period, greater than 12 months)	Length of licence
Software Licences (indefinite time period)	10

[3] International Financial Reporting Standard 13 – Fair Value Measurement

The case management system used by Social Security Scotland continues to be developed by Scottish Government's Social Security Directorate and along with other Information Technology assets, will transfer to Social Security Scotland as the management of those processes transfer across from the Social Security Programme.

1.8 Benefit payments recognition

Social Security Scotland assumes that postcode information held by Department for Work and Pensions is a fair representation of residency for the purpose of determining benefit expenditure. This assumption has then been applied to the data from the Department for Work and Pensions systems using postcodes when determining residency. Social Security Scotland recognises the cost of benefit payments as follows:

- **Carer's Allowance, Disability Living Allowance, Personal Independence Payment, Attendance Allowance, Severe Disablement Allowance and Industrial Injuries Supplement** - These benefits are currently administered by the Department for Work and Pensions on behalf of Social Security Scotland under Agency Agreements until their replacements are managed by us. Processes are in place with the Department for Work and Pensions Central Payment System to account for these payments in Scotland. There are accounting adjustments on a monthly basis for identified overpayments, accruals and prepayments along with a final year end adjustment.
- **Carer's Allowance Supplement** – payments are made (twice yearly) and at the year-end for payments we anticipate making in a future payment run relating to backdated claims that are approved following the processing of any Carer's Allowance backlogs or appeals.
- **Best Start Foods –** payments are made every 4 weeks via a third party. This is currently accounted for on a cash basis.
- **Child Winter Heating Assistance –** payments are made annually to clients in receipt of the highest rate of Disability Living Allowance and Child Disability Payment.
- **Best Start Grant, Funeral Support Payment, Young Carer's Grant, Job Start Payment, Scottish Child Payment, Child Disability Payment and Adult Disability Payment** – based on application date. When an application is approved and authorised this will be recognised based on application date. At the year-end we will accrue for claims paid in April that had an application date in March or earlier.

1.9 Impairment of benefit receivables/overpayments

Social Security Scotland will normally seek to recover all overpayments where there is a legal basis to do so and recovery is cost effective. For those benefits directly administered by Social Security Scotland current debt levels are minimal and are not subject to impairment reviews. Debt for those devolved benefits delivered through an Agency Agreement is recovered by the Department for Work and Pensions under their policies. Overpayments under £65 and those relating to official (staff) error are written off. Benefit receivables are reviewed annually for impairment, in line with IFRS 9. The model views credit worthiness of financial assets by weighted average to avoid undue cost and effort associated with undertaking individual credit assessments. This weighting being the respective risks of a default occurring. This means that the impairment of the asset is the impairment for the life of the asset rather than only the impairment which has already occurred. Balances are discounted using the appropriate HM Treasury Discount rate.

1.10 Financial assets and liabilities

Financial 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 2022 Social Security Scotland has no significant exposure to foreign currency risk

1.11 Benefits receivable

Benefits receivable are recognised when an assessment of the associated case has determined that an overpayment has been made. Most of these relate to benefits administered by the Department for Work and Pension, through Agency Agreements and Social Security Scotland relies on Department for Work and Pensions to identify these overpayments. Social Security Scotland does not account for omitted or potential debt

1.12 Employee benefits – short term

Salaries, wages and employment-related payments are recognised in the year in which the service is received from employees. The cost of annual leave and flexible working time entitlement earned but not taken by employees at the end of the year is recognised in the financial statements to the extent that employees are permitted to carry-forward leave into the following year.

1.13 Pensions

Present and past employees are covered by the provisions of the Principal Civil Service Pension Scheme (The Scheme) which is a defined benefit scheme and is unfunded and contributory. 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 scheme of amounts 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 to the scheme. In respect of the defined contribution schemes, the contributions payable for the year are recognised.

1.14 Leases

These costs are treated as operating leases and charged to the Statement of Comprehensive Net Expenditure. Where the arrangement includes rent-free periods this is spread over the lease term.

As outlined at Note 1.2, regarding the adoption of IFRS 16, leases will be treated differently in 2022-23 onwards. There are four property leases which will be impacted by the introduction of IFRS 16. When these are recognised on the Statement of Financial Position approximately £4 million will be added to Buildings and they will then be depreciated over the period of the lease with interest charges to the Statement of Comprehensive Net Expenditure.

1.15 Contingent liabilities

Contingent liabilities are disclosed in accordance with International Accounting Standard 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.

1.16 Value Added Tax

Operating 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.

1.17 Segmental Reporting

We report on three segments –Administration costs, Department for Work and Pensions agency agreement costs and Programme costs. Administration costs reflect the costs of running Social Security Scotland and include staff costs as well as accommodation, services and supplies. Programme costs reflect the cost of benefit payments. Overpayments of benefits administered by Department for Work and Pensions under Agency Agreements attract civil and administrative penalties under Department for Work and Pensions policy; these have been netted against the benefit cost.