Social Security Scotland
Tèarainteachd Shòisealta Alba

Audit and Assurance Committee	
Date of Meeting	16th May 2023
Subject	2022-23 Approach to Accounts preparation and Accounting Policies
Agenda No.	9
Prepared By	Head of Finance
Purpose	Note

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 2021-22 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 27 February 2023 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 2022-23 can be found at Annex A. The main changes proposed are:

- **Accounting Standards Issued, Not Yet Adopted** – reference to IFRS16 (Leases) has been removed as this has now been adopted for 2022-23
- **Significant Judgements** – this section has been included in previous years Accounting Policies, however, as it related to judgements on treatment of leases, which is now covered under IFRS16 (Accounting Policy x.x), this section has been removed for 2022-23
- **Benefit payments recognition** – Winter Heating Payment has been added to the list of benefits.
- **Leases** – this section has been substantially updated to reflect the implementation of IFRS 16. The updated narrative for this section been reviewed by Audit Scotland and agreed in principle.
- **Operating Leases** – this section has been added to outline our policies in relation to leases not covered by IFRS 16.

3. Conclusions

The Committee is asked to confirm that the Accounting Policies are appropriate for the 2022-23 accounts.

ANNEX A

Notes to the Accounts

1.1 Basis of preparation

The financial statements have been prepared in accordance with:

- HM Treasury's 2022-23 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 2023. We have also taken into account the specific interpretations and adaptations included in the Financial Reporting Manual.

1.3 Accounting Standards Issued, not yet adopted

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.

1.4 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, and intangible assets where material.

[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

ANNEX A

1.5 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 2022-23 shows the taxpayers' equity as a liability of ***£xxx.xm (TBC on completion of financial statements***). 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 2023-24 has been approved by the Scottish Parliament. The funding position from 2024-25 is included within the Scottish Government's Spending Review.

1.6 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. All evidence and assumptions used to calculate the impairment are the best available at this time.

1.7 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 is 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 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 International Financial Reporting Standard 13[32].

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 to historic cost less accumulated depreciation.

1.8 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. An asset under construction also exists which relates to our hosting platform which is still under development. 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

The hosting platform used by Social Security Scotland continues to be developed in conjunction with the Scottish Government's Social Security Directorate. Historic spend on the hosting platform, and other Information Technology assets, will transfer to Social Security Scotland as the management of those processes transfer across from the Social Security Directorate.

1.9 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 Allowance, Disability Living Allowance, Personal Independence Payment, Attendance Allowance, Severe Disablement Allowance and Industrial Injuries Disablement Benefit** – 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 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 Allowance backlogs or appeals.
- **Best Start Foods** – payments are made every 4 weeks via a third party. This is 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 Grant, Job Start Payment, Scottish Child Payment, Child Disability Payment and Adult Disability Payment** – When an application is approved and authorised this will be recognised based on the application date. At the year-end we will accrue for claims paid in April that had an application date in March or earlier.
- **Winter Heating Payment** – payments are made annually to clients in receipt of qualifying low income benefits.

1.10 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 Department for Work and Pensions maintains a model that calculates impairment for all its benefits and we also use this as we do not have access to information to maintain our own model. 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.

1.11 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 2023 Social Security Scotland has no significant exposure to foreign currency risk.

1.12 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 Pensions, through Agency Agreements and Social Security Scotland relies on the Department for Work and Pensions to identify these overpayments. Social Security Scotland does not account for omitted or potential debt.

1.13 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.

1.14 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.

1.15 Leases

Leases are accounted for under IFRS 16 which was adopted from 1st April 2022. IFRS16 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 the scope of IFRS 16 to include arrangements with £nil consideration.

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 (these are determined to be in line with capitalisation thresholds on property, plant and equipment, except vehicles which have been deemed to be not of low value); and
- Leases with a lease term of 12 months or less.

Initial Recognition

At the inception of a contract, we assess whether a contract is, or contains, a lease. A contract is, or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time. This includes assets for which there is no consideration. To assess whether a contract conveys the right to control the use of an identified asset, 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.

Right of Use Asset

At the commencement of a lease (or the IFRS 16 transition date, if later), 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. We use the HM Treasury discount rate of 0.95% applied to our lease liability in our Statement of Financial Position.

We recognise a right of use asset and lease liability at the commencement date. The right of use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for initial direct costs, prepayments or incentives, and costs related to restoration at the end of a lease. The right of use assets are subsequently measured at either fair value or current value in existing use in line with property, plant and equipment assets. The cost measurement model in IFRS 16 is used as an appropriate proxy for current value in existing use or fair value for the majority of leases, except for those which meet one of the following:

- A longer term lease that has no provisions to update lease payments for market conditions or if there is a significant period of time between those updates; and

● The fair value or current value in existing use of the underlying asset is likely to fluctuate significantly due to changes in market prices.

Given all of our leases costs are set for the duration of our contracts this meets the first criteria, and we will adopt the cost measurement model.

The right of use asset is depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right of use asset or the end of the lease term. 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

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease, or if that cannot be readily determined, the rate provided by HMT. When measuring the lease liabilities, we discounted the lease payments using the rate of 0.95%.

Lease payments included in the measurement lease liability comprise of the following:

- Fixed lease payments (which are 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.

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

At inception or on reassessment of a contract that contains a lease component, Social Security Scotland allocates the consideration in the contract to each lease component on the basis of the relative standalone prices. We assess whether it is reasonably certain to exercise break options or extension options at the lease commencement date. We reassesses this if there are significant events or changes in circumstances that were not anticipated.

1.16 Operating Leases

These costs are treated as operating leases and charged to the Statement of Comprehensive Net Expenditure. We have operating leases for photocopiers and premises, these are not determined to be leases under IFRS16.

1.17 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.

1.18 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.

1.19 Segmental Reporting

We report on three segments – Administration costs, Formal Agreements with the Department for Work and Pensions and Programme costs. Administration costs, which are detailed in notes 2 and 3 excluding Formal Agreement costs ***(£xxx.x million – TBC when financial statements complete***, £118.4 million in 2021-22), reflect the costs of running Social Security Scotland and include staff costs as well as accommodation, services and supplies. Charges in relation to Formal Agreements with the Department for Work and Pensions are also included in Note 3 ***(£xxx.x million – TBC when financial statements complete***, £76.5 million in 2021-22). Programme costs, which are detailed in Note 4 ***(£xxx.x million – TBC when financial statements complete***, £3,483.9 million in 2021-22) reflect the cost of benefit payments. Overpayments of benefits administered by the Department for Work and Pensions under Agency Agreements attract civil and administrative penalties under the Department for Work and Pensions policy; these have been netted against the benefit cost.