Social Security Scotland
Tèarainteachd Shòisealta Alba

# Annual Report 2024/25 – Accounting Policies Review

Dignity, fairness, respect.

# Audit and Assurance Committee

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| **Date of Meeting** | Tuesday 13th May 2025 |
| **Subject** | 2024-25 Approach to Accounts preparation and Accounting Policies |
| **Agenda No.** | 3 |
| **Paper No.** | 31.2 |
| **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. Updates to the Accounting Policies were discussed at an Annual Accounts session held on 18th March 2025 which was attended by a number of finance staff.

1.3. The draft Accounting Policies for financial year 2024-25 are included at Annex A. Due to there being no substantial changes within the 2024-25 Financial Reporting Manual (FReM) or the Scottish Public Finance Manual (SPFM), there are no significant changes to our Accounting Policies for this financial year.

## 2. Key points

2.1. As noted above, there are no significant changes to the Accounting Policies from the previous year. The main changes proposed are:

- Minor updates to terminology have been made throughout the policies to ensure consistency.
- Narrative has been included within Note 1.9. Benefit Payment Recognition for Carer's Support Payment, Pension Age Winter Heating Payment and Pension Age Disability Payment.
- Duplication of narrative has been removed from Note 1.15 Leases.

## 3. Conclusions

3.1. The Committee is asked to confirm that the Accounting Policies are appropriate for the 2024-25 Accounts.

## Section 1: Introduction

Prior to the year-end reporting date the Corporate Finance team review the summary of significant accounting policies outlined in Note 1 of the **annual report**. The aim of this is to ensure the accounting policies are up-to-date based on any recent changes to or introduction of new accounting standards.

This report outlines the proposed changes to the accounting policies for 2024/25.

## Section 2: Summary of changes to accounting policies for 2024/25

Although a minor a point, the first notable change a side, from date changes, occurs within note **1.5 Going concern**. The references to spending reviews has been replaced with references to our ongoing budget work. It is felt that this provides better context to our future budget work and medium-term financial strategy.

**Note 1.9 Benefit payment recognition** has been updated with the latest benefit payments that Social Security Scotland clients receive at 31 March 2025. Additional adjustments have been included to provide the reader with benefit specific information including residency and the date expenditure is recognised.

**Note 1.15 Leases** has been reduced to remove duplication from the 2023/24 annual report. The first paragraph within the 2023/24 annual report contained information relating to right of use assets and lease liabilities which we elected not to recognise that was then repeated within the **Initial Recognition** section directly below.

## Section 3: Proposed summary of significant accounting policies for 2024/25

### 1.1 **Basis of preparation**:

The financial statements have been prepared in accordance with:

- HM Treasury's 2024-25 Government Financial Reporting Manual (FReM) .
- 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. 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, interpretation 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 2025. We have also considered 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 modified by the revaluation of assets and liabilities to fair value as determined by the relevant account standard.

### 1.4 Accounting Standards Issued, not yet adopted:

International Financial Reporting Standard 17 (Insurance Contracts) is expected to replace International Financial Reporting Standard 4 (Insurance Contracts) in 2025-26. We do not expect that there will be any impact on our accounts.

### 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.

Our funding for 2025-26 has been approved by the Scottish Parliament. The funding position for 2026-27 onwards, is considered in the Scottish Government's Medium-Term Financial Strategy and will be included in future year budget processes.

### 1.6 Accounting estimation techniques:

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

#### Impairment of Benefit Receivables

The most complex assumptions relate to impairment of benefit receivables, detailed in 1.13.

#### Fraud and Error – Benefits Administered by the Department for Work and Pensions

The Department for Work and Pensions administers six benefits on behalf of Scottish Ministers under Formal Agreements.  Administering benefits is a complex process which introduces a risk of fraud and error leading to some incorrect payments being made. Incorrect payment estimates for these benefits are produced to the standards of the UK Statistics Authority national statistics protocols.

The Department for Work and Pensions do not report on fraud and error rates based on Scottish caseload only, therefore the rates for the rest of the UK have been used to calculate the estimated Monetary Value of Fraud and Error on those benefits administered under Agency Agreements.  We believe these rates are representative as the Department for Work and Pensions continues to administer these benefits in the same way as they are administered in the rest of the UK – under the Social Security Contributions and Benefits Act 1992 and the Welfare Reform Act 2012.

### 1.7 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.

### 1.8 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.

### 1.9 Benefit payment recognition:

Social Security Scotland assumes that postcode information held by the Department for Work and Pensions is a fair representation of residency for the purpose of determining benefit expenditure. Expenditure is recognised at the qualifying date as follows:

**Benefits administered on our behalf by the Department for Work and Pensions**
Agreements are in place with the Department for Work and Pensions Central Payment System to account for these payments in Scotland:

Carer's Allowance Supplement – payments are made twice yearly. Year-end adjustments are made to allow for backdated claims relating to the timing of processing Carer's Allowance.

Child Winter Heating Payment and Pension Age Winter Heating Payment – payments are made annually to those over state pension age and in receipt of a qualifying benefit, respectively.

Best Start Foods – recognised on a cash basis as payments are made every 4 weeks through a third party.

Best Start Grant, Funeral Support Payment, Young Carer Grant, Job Start Payment, Scottish Child Payment, Child Disability Payment, Adult Disability Payment, Pension Age

Disability Payment, Carer’s Support Payment - when an application is made and approved the benefit expenditure will be recognised from the application date.

Adjustments are made monthly for identified benefit overpayments, accruals and prepayments, along with final year-end adjustments where required.

### 1.10 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.

### 1.11 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.

### 1.12 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 Agreements is recovered by the Department for Work and Pensions under their policies. Overpayments under £65 and those relating to official errors which we would not reasonably expect a person to notice are written off.

### 1.13 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 subject to impairment reviews through a similar approach to the Department for Work and Pensions. Debt for those devolved benefits delivered through a 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. 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.

### 1.14 Trade and other receivables:

Assets held by Social Security Scotland have been classified as trade and other receivables. 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. Most 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 2025 Social Security Scotland has no significant exposure to foreign currency risk.

### 1.15 Leases:

IFRS 16 is applied when accounting for leases.  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; 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. 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 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, 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 length of the lease terms.

### 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.

### 1.16 Provision 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.

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## Section 3: Proposed summary of significant accounting policies for 2024/25

### 1.17 **Basis of preparation**:

The financial statements have been prepared in accordance with:
- HM Treasury's 2024-25 Government Financial Reporting Manual (FReM) .
- 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. 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.

### 1.18 Accounting standards, interpretation 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 2025. We have also considered the specific interpretations and adaptations included in the Financial Reporting Manual (FReM).

### 1.19 Accounting Convention:

These financial statements are prepared on an accrual basis under the historical cost convention modified by the revaluation of assets and liabilities to fair value as determined by the relevant account standard.

### 1.20 Accounting Standards Issued, not yet adopted:

International Financial Reporting Standard 17 (Insurance Contracts) is expected to replace International Financial Reporting Standard 4 (Insurance Contracts) in 2025-26. We do not expect that there will be any impact on our accounts.

### 1.21 Going Concern:

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

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### 1.22 Accounting estimation techniques:

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#### Impairment of Benefit Receivables

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#### Fraud and Error – Benefits Administered by the Department for Work and Pensions

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The Department for Work and Pensions do not report on fraud and error rates based on Scottish caseload only, therefore the rates for the rest of the UK have been used to calculate the estimated Monetary Value of Fraud and Error on those benefits administered under Agency Agreements.  We believe these rates are representative as the Department for Work and Pensions continues to administer these benefits in the same way as they are administered in the rest of the UK – under the Social Security Contributions and Benefits Act 1992 and the Welfare Reform Act 2012.

### 1.23 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.

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### 1.26 Segmental reporting:

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### 1.30 Trade and other receivables:

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As at 31 March 2025 Social Security Scotland has no significant exposure to foreign currency risk.

### 1.31 Leases:

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- leases with a lease term of 12 months or less.

### Initial Recognition

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- we have the right to obtain substantially all the economic benefit from the use of the asset throughout the period of use; and
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### Right of Use Asset

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- 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 length of the lease terms.

### Lease Liabilities

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### Operating Leases

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### 1.32 Provision and contingent liabilities:

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