

Response on the recovery of public sector exit payments

15 September 2014

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. Our 14,000 members work throughout the public services, in national audit agencies, in major accountancy firms, and in other bodies where public money needs to be effectively and efficiently managed.

As the world's only professional accountancy body to specialise in public services, CIPFA's portfolio of qualifications are the foundation for a career in public finance. They include the benchmark professional qualification for public sector accountants as well as a postgraduate diploma for people already working in leadership positions. They are taught by our in-house CIPFA Education and Training Centre as well as other places of learning around the world.

We also champion high performance in public services, translating our experience and insight into clear advice and practical services. They include information and guidance, courses and conferences, property and asset management solutions, consultancy and interim people for a range of public sector clients.

Globally, CIPFA shows the way in public finance by standing up for sound public financial management and good governance. We work with donors, partner governments, accountancy bodies and the public sector around the world to advance public finance and support better public services.

CIPFA Response on the Recovery of Public Sector Exit Payments

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for accountants in public finance. Our 14,000 members work globally throughout public services, for example in national audit agencies, major accountancy firms, outsource firms and in bodies where public money needs to be effectively and efficiently managed.

As champions of sound public financial management, we endorse the desire to promote the concept of a single public sector when looking at value for money. Against this background, and in the light of continuing fiscal consolidation, we can, therefore, appreciate the aims behind the proposed changes.

We advise caution, however, about the interaction between the proposals and both employment law and current pension regulation, particularly in local authorities and those other bodies that have the status of separate corporate bodies. As an example local government pension arrangements are designed to allow flexible retirement but already contain provisions for claw-back of pensions in certain re-employment situations. We would encourage the government in implementing the policy to be very clear about these interactions and ensure that any risks of challenge are minimised.

A core part of CIPFA's activity is training the finance professionals that the public sector needs to carry out its functions effectively, but there are of course several service and geographic areas, for example social care, where it would be unfortunate if the by-product of changes to regulations were a more prolonged loss of skilled personnel from the front line. With the current fiscal position employers make cuts involving severance, even for roles in short supply elsewhere, and staff sometimes receive severance who are then quite quickly reemployed. We would therefore advise the government to consider whether there is more it could do to avoid severances at source and encourage or incentivise re-deployment within the public sector as a whole. This would not only lead to improved value for money but also help to foster more joined up working within the different parts of the public sector.

Given the potential complexity of any changes, involving more fully representatives from across the public sector in drawing up the detail of its proposals may help to avoid unintended consequences. We would certainly be more than happy to contribute to any such discussions.

Of course, the public are often most concerned about pay offs for senior staff who are then reemployed. We should remember that individuals go through the trauma of losing their jobs, but again we can understand the public interest case for clawbacks when senior staff are then re-employed.

Also, we remain concerned that whilst officials are at times released for poor performance, there are cases where unfair factors have led to their severance, for example new Leaders on change of control not trusting officials who have worked with the previous administration. The government would wish to avoid any unintended consequences where it is the financial implications of unfair dismissal that may keep the numbers low. As we have raised before, the government may wish to promote fixed term contracts for senior staff to reduce the flow of future severances, but accept that employers not offering permanent terms would probably need to pay a premium in the market to reflect this.

In summary, CIPFA will willingly help the government to make the clawback proposals workable. The government should also consider however whether it could reduce the flow of severances at source by encouraging redeployment between at present wholly separate employers, encouraging fixed term packages and protecting senior staff in councils from unfair dismissal.

If you would like to discuss further or have any queries or questions please do not hesitate to contact Alison Scott, Assistant Director, Policy and Technical at alison.scott@cipfa.org

Specific Matters for Comment

ED 48, *Separate Financial Statements*

Specific Matter for Comment 1:

Do you agree generally with the proposals for separate financial statements? In particular, do you agree with the proposal to permit the use of the equity method, in addition to cost or fair value, for investments in other entities?

CIPFA generally agrees with the proposals in ED 48, including the proposal to permit the use of the equity method.

We note that the proposal to permit the use of the equity method is aligned with the proposal recent IASB Exposure Draft ED/2013/10 *Equity Method in Separate Financial Statements* which was issued after the issuance of this IPSASB ED.

ED 49, Consolidated Financial Statements

Specific Matter for Comment 1:

Do you agree with the proposed definition of control? If not, how would you change the definition?

CIPFA agrees with the proposed definition of control, but we suggest that some additional clarification would be useful.

We agree that it is helpful to confirm that public sector entities obtain value from their assets both through conventional monetary returns and through wider benefits achieved through service provision in line with entity objectives. The proposed IPSAS XX (ED 49) achieves this by using a definition based on rights or exposure to 'benefits' rather than the IFRS 10 term 'returns'. It is very important to communicate the fact that 'benefits' may be negative as well as positive, and we note that this is addressed in the definition of 'Benefit'.

The focus on benefits 'from' the potentially controlled entity may be more subjective than that in IFRS 10, which considers the share of the total returns 'of' the entity. It is therefore particularly important to prove the link between benefits and the power to direct the relevant activities of the entity. The ED IPSAS does this at paragraphs 31-32, but we are not sure this fully outlines the principles by which a decision could be made as to which of two competing entities with similar objectives has control.

Specific Matter for Comment 2:

Do you agree that a controlling entity should consolidate all controlled entities (except in the circumstances proposed in this Exposure Draft)? If you consider that certain categories of entities should not be consolidated, please justify your proposal having regard to user needs and indicate your preferred accounting treatment for any such controlled entities. If you have any comments about temporarily controlled entities, please respond to Specific Matter for Comment 3.

CIPFA agrees that a controlling entity should consolidate all controlled entities (except in the circumstances proposed in this Exposure Draft).

Specific Matter for Comment 3:

Do you agree with the proposal to withdraw the exemption in IPSAS 6, Consolidated and Separate Financial Statements (December 2006) for temporarily controlled entities? If you agree with the withdrawal of the exemption please give reasons. If you disagree with the withdrawal of the exemption please indicate any modifications that you would propose to the exemption in IPSAS 6 (December 2006).

CIPFA agrees with the proposal to withdraw the exemption in IPSAS 6 for temporarily controlled entities, for the reasons outlined in the exposure draft Basis for Conclusions.

ED 49, Consolidated Financial Statements (continued)

Specific Matter for Comment 4:

Do you agree that a controlling entity that meets the definition of an investment entity should be required to account for its investments at fair value through surplus or deficit?

Yes

Specific Matter for Comment 5:

Do you agree that a controlling entity, that is not itself an investment entity, but which controls an investment entity should be required to present consolidated financial statements in which it (i) measures the investments of the controlled investment entity at fair value through surplus or deficit in accordance with IPSAS 29, Financial Instruments: Recognition and Measurement, and (ii) consolidates the other assets and liabilities and revenue and expenses of the controlled investment entity in accordance with this Standard?

Do you agree that the proposed approach is appropriate and practicable? If not, what approach do you consider would be more appropriate and practicable?

Yes.

Specific Matter for Comment 6:

The IPSASB has aligned the principles in this Standard with the Government Finance Statistics Manual 2013 (GFSM 2013) where feasible. Can you identify any further opportunities for alignment?

CIPFA has not identified any further opportunities.

ED 50, *Investments in Associates and Joint Ventures*

Specific Matter for Comment 1

Do you generally agree with the proposals in the Exposure Draft? If not, please provide reasons.

CIPFA generally agrees with the proposals in ED 50.

Specific Matter for Comment 2

Do you agree with the proposal that the scope of the Exposure Draft be restricted to situations where there is a quantifiable ownership interest?

CIPFA agrees. IPSAS 7 uses 'shareholding or other formal equity structure' but this is too narrow for the wider variety of structures which are intended to be covered by the proposed IPSAS.

Specific Matter for Comment 3

Do you agree with the proposal to require the use of the equity method to account for investments in joint ventures? If not, please provide reasons and indicate your preferred treatment.

CIPFA agrees with this proposal.

Drafting Comment

Having regard to the use of black letter type in ED 50, we suggest that the material in paragraph 22 sets out a key requirement and this should also be signalled in black letter type.

ED 51, *Joint Arrangements*

Specific Matter for Comment 1:

Do you agree that joint arrangements should be classified as joint ventures or joint operations based on whether an entity has (i) rights to assets and obligations for liabilities, or (ii) rights to net assets?

CIPFA generally agrees with this proposal.

Specific Matter for Comment 2:

Do you agree that joint ventures should be accounted for in consolidated financial statements using the equity method?

Yes

ED 52, *Disclosure of Interests in Other Entities*

Specific Matter for Comment 1:

Do you agree the proposed disclosures in this draft Standard? If not, why? Are there any additional disclosures that would be useful for users of financial statements?

CIPFA generally agrees with these proposals.

Specific Matter for Comment 2:

Do you agree with the proposal that entities for which administrative arrangements or statutory provisions are dominant factors in determining control of the entity are not structured entities? If not, please explain why and explain how you would identify entities in respect of which the structured entity disclosures would be appropriate.

CIPFA agrees with the proposed approach.