

I am impressed!! The proposed ED on Fiscal Sustainability is clear and succinct on a very complex subject. I was especially pleased to see that the Intergenerational Equity concept was used as the basis for discussions in the ED. Hopefully, this concept can be discussed earlier in the Conceptual Framework project to lay the foundation for all the IPSASs.

I would like to have seen more on discount rates in Section 7 of the ED. This was an especially difficult subject at the local level when we were deliberating the use of discounting techniques in our Guide for Economic Development projects (see attached). Since there was no consensus on which discount rate to use in our deliberations, we also applied sensitivity analysis as suggested in the ED. Also, I was disappointed that the discount rate was not discussed more extensively in the ED on Service Concession Agreements (public-private partnerships) to give us at the working level more guidance on its application.

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GUIDE FOR FINANCIAL
ANALYSIS OF
ECONOMIC
DEVELOPMENT
PROJECTS

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1) PURPOSE

The goal of this Guideline is to provide a standard analytic model to assist in determining the feasibility of proposed investments in public-private partnerships and economic development projects by the City of Hampton.

2) SCOPE

The guidelines are recommended for use by City Council, staff and the Council established Finance Committee in evaluating all public-private partnerships and economic development projects. All net present value (NPV) and cash flow analysis submitted to the Finance Committee for their review and recommendation shall comply with these guidelines.

The results of the net present value and cash flow analysis should be used along with other quantitative and qualitative factors in arriving at an overall decision. The Finance Committee will not evaluate these factors as a part of their review of the analysis.

3) BACKGROUND

A Public Private Partnership (PPP) is a partnership between the public sector and the private sector for the purpose of delivering a project or a service traditionally provided by the public sector. PPPs recognize that both the public sector and the private sector have certain advantages relative to the other in the performance of specific tasks. By allowing each sector to do what it does best, public services and infrastructure can be provided in the most economically efficient manner. The overall aim of PPPs is therefore to structure the relationship between the public sector and the private sector, so that risks are borne by those best able to control them and increased value is achieved for public services through the exploitation of private sector skills and competencies.

PPPs can involve the design, construction, financing, operation and maintenance of public infrastructure or facilities, the operation of services, grants or incentives to businesses for job generation, development and redevelopment of public land, to meet public needs.

4) FINANCIAL ANALYSIS

The financial model is an integral part of the analysis of project finance. It must be very carefully structured and managed to ensure that the results are reliable and accurate. For ease of comparison, the contract should specify the format and content of the financial model to be provided as part of the tender submissions. The financial model looks at cash flows over the life of the project, and is the key tool in assessing the sensitivity of the financial projections to changes to any of the key assumptions. The output of the financial model is typically the identification of the financing requirements of the project, the project cash flows available to service debt and reward equity, and the NPV of the project cash flows.

In constructing or assessing a financial model, attention should be paid to certain key areas. This will help to ensure that the model is accurate, and that the output is a reliable basis for assessment. In no circumstances should the results of a financial model be accepted without question, as minor errors can easily occur and result in decisions being made based on inaccurate information. In terms of the broad areas to be addressed by the model, some of the critical areas, which will have to be clearly set out include: a summary area showing the results of the model; an area setting out the assumptions underpinning the model, including construction and operating costs, macroeconomic assumptions, revenue (volume and price) assumptions, financing structure including terms and costs, taxation, working capital and timetable; areas showing the profit and loss account, cash flow and balance sheet implications of all of the above assumptions in the accounts; an area showing the calculation of the summary results, and project NPV. The following key information should be included in the financial model:

- a. Anticipated Cash Receipts by Year. The major sources of receipts for each year of the project's life.
- b. Anticipated Cash Disbursements by Year. The major categories of disbursements for each year of the project's life.
- c. Anticipated Net Cash Flows by Year. The anticipated receipts by year less the anticipated disbursements by year reflect the anticipated net cash flows by year.
- d. Net Present Value Computations. All anticipated receipts and disbursements over a project's life cycle are discounted to the present using the effective discount rate, and the discounted disbursements are subtracted from the discounted receipts to yield a NPV. If discounted

receipts exceed discounted disbursements, the NPV is positive and the project is worth pursuing. Where two or more alternatives for a project exist, the one with the highest NPV over an equivalent analysis period should usually be pursued. Funding availability, perceived risk, policy issues and other qualitative factors, however, may lead to the selection of an alternative with a lower NPV.

- e. Sensitivity Analysis. Upper and lower limits equal to at least 5% of the anticipated revenues or expenditures should be established to identify the sensitivity of the estimates to unanticipated changes. The anticipated net cash flows, along with the NPV computations, at these upper and lower limits should be calculated to identify the range in the estimates.

5) NET PRESENT VALUE ANALYSIS

a) General Principles

A standard criterion for evaluating whether the City should invest in a Public-Private Partnership or economic development project is net present value. Net present value represents the expected net benefits (benefits minus costs) expressed in today's dollars. Generally, a positive net present value means the project generates wealth. Projects with negative net present value consume wealth and should generally be avoided subject to other qualitative factors.

Net present value is calculated as follows:

- 1) The first step is to forecast the expected benefits and costs over the life of the project (see section 6 "Identifying and Forecasting Costs and Benefits" on page 6).
- 2) The second step is to determine the discount rate (see section 7 "Determining the Discount Rate" on page 7) that will be used to convert the net expected benefits to today's dollars.
- 3) The final step is to enter all data into the NPV model worksheet and the results will be calculated automatically.

b) Elements of the NPV Analysis

1. Description of Project- A brief description of the project, rationale for the City's proposed participation in the project including the selection of the private sector party, the proposed dollar amount of City and private sector investments, the proposed financing required by the City and private sector and the return expected by the private sector.
2. Assumptions- The analysis should include a statement of the assumptions, the rationale behind them and a review of their strengths and weaknesses.
3. Evaluation of Alternatives- The analysis should include the evaluation of achieving the project objectives by examining alternative investments and/or the different levels of participation by the City.

6) IDENTIFYING AND FORECASTING COSTS AND BENEFITS

Analyses should include forecasts of the expected tangible benefits and costs over the life of the project or the financing period, whichever is shorter. If the financing period is chosen, then costs and benefits beyond the financing period will be shown as residual value. These benefits and costs should take into account the effect of inflation (unless the discount rate is converted from a nominal to a real rate).

Expected benefits shall include all direct and indirect taxes and fees. For purposes of this analysis, residual value or sales value of the project will be excluded from the forecasts.

Expected costs shall include all costs to acquire, build or improve the project, operating and maintenance costs, interest costs and opportunity costs. Opportunity costs are the potential benefits that are lost by selecting it. For example, if the city sold land to a private developer at a nominal price for a project, the city would lose the difference between the nominal sales price and the market value.

Sometimes it is difficult to estimate the benefits or costs because they are dependent on an unpredictable environment or because the result of a projection is uncertain. In these cases, use expected value to estimate

uncertain benefits and costs. Expected value is determined as follows: 1) list the possible scenarios; 2) estimate the probability of each scenario; 3) estimate the benefit (or cost) in each scenario; 4) add the expected value for each scenario to get an expected benefit (or cost).

The forecasts should include a statement of the assumptions, the rationale behind them and a review of their strengths and weaknesses.

7) DETERMINING THE DISCOUNT RATE

In order to compute net present value (NPV), it is necessary to discount future benefits and costs. This discounting reflects the time value of money. In essence, a dollar in the future is less in value than a dollar today.

One of the interesting controversies that has developed in making present value calculations revolves around the choice of the proper discount rate to use. The discount rate represents the expected yield rate necessary to induce decision makers to commit available funds to the subject investment, given its level of risk. Broken down into its simplest components, the discount rate incorporates the following elements:

- a. Risk-Free Rate. This is the amount that a decision maker feels certain of realizing over the holding period. The rate generally used is that rate available on instruments considered to have virtually no possibility of default, such as U.S. Treasury obligations.
- b. Risk Premium. This is the degree of uncertainty as to the realization of the expected future returns. The risk premium is in addition to the risk-free rate. In other words, decision makers must expect some additional rate of return to induce them to invest in an economic development project and be compensated for the additional risk incurred in such an investment.

There is no consensus on how governments should determine the discount rate. There is general agreement that a City would start with the current general obligation (GO) bond rate. In a Public-Private Partnership, a weighting factor would be added to the GO bond rate. The upper limit for the discount rate would be the expected return on the project by the private party. The difficulty is determining what the weighting factor should be. There are at least four methods that could be used:

- a. Partnership Approach. Apply the percent invested by government and the private party to each of the respective rates.
- b. Risk Approach. Double the GO bond rate to cover the funds needed for continual service if the project fails. The City's risk is that the project does not provide the cash flow that was projected to provide for citizen services and the City has to acquire funds a second time to pay for such services.
- c. Government Approach. Apply the percent invested by the government to the private sector rate to cover the risk incurred in the project.
- d. Cost of Capital Approach. Use the City's GO Bond Rate as the City does not have the same expectations as the private sector. If NPV calculation is positive, compare the result with the cost of the investment.

To illustrate the differences in approaches, let us assume that the City is investing \$30 million in a project and the private party is investing \$70 million. Further, let us assume that the GO bond rate is 5% and the expected return by the private party is 25%. The expectation is that the discount rate would be somewhere between 5% and 25%.

	Actual Rate	Weighting Factor	Effective Rate
Partnership Approach:			
GO bond rate	5%	30%	1.5%
Private sector rate	25%	70%	17.5%
Weighted discount rate			19.0%
Risk Approach:			
GO bond rate	5%	200%	10%
Government Approach:			
GO bond rate	5%		5.0%
Private sector rate	25%	30%	7.5%
Weighted discount rate			12.5%
Cost of Capital Approach:			
GO bond rate	5%	100%	5%

It is readily recognized that the higher the discount rate, the less favorable will be the NPV. Consequently, a weighted discount rate of 19% in the above example would reflect a less favorable NPV than a 12.5% discount

rate and the 10% discount rate using the risk approach or the 5% discount rate using the cost of capital approach would be the most favorable.

In another example, let us assume that the City is investing \$80 million in a project and the private part is investing \$20 million. The weighted discount rate would be as follows:

	Actual Rate	Weighting Factor	Effective Rate
Partnership Approach:			
GO bond rate	5%	80%	4%
Private sector rate	25%	20%	5%
Weighted discount rate			9%
Risk Approach:			
GO bond rate	5%	200%	10%
Government Approach:			
GO bond rate	5%		5%
Private sector rate	25%	80%	20%
Weighted discount rate			25%
Cost of Capital Approach:			
GO bond rate	5%	100%	5%

As this example illustrates, a significant investment by the City may result in a weighted discount rate equal to or greater than the private sector rate if the government approach is used. Whereas the partnership approach will result in a discount rate slightly higher than the GO bond rate and the risk approach will be about the same in this example. The cost of capital approach would be the most favorable with a 5% discount rate.

For purposes of this type analysis, the discount rate will be considered a nominal discount rate. A nominal discount rate represents a rate that reflects expected inflation. Thus, the costs and benefits should be measured in nominal terms.

When there is some uncertainty about the rate to be employed, a computation of the critical rate is sometimes helpful. The critical discount rate is that rate at which NPV of the project being considered changes sign from negative to positive. If the critical rate is either sufficiently high or sufficiently low, the analyst is spared the agony of setting a single best discount rate. Suppose that the critical rate is 15%, and NPV is greater than 0 for any rate less than 15%; the decision maker and analyst might

then agree jointly that, while they do not have great confidence in any particular rate, the proper rate is surely less than 15%, and the project is worth pursuing.

8) SENSITIVITY ANALYSIS

Sensitivity analysis measures how sensitive the result of a net present value analysis is to a change in one of the variables (i.e. discount rate). For the purposes of this NPV analysis, the sensitivity analysis should include the recalculation of NPV at varying discount rates and for the worst-case scenario (i.e. project will only generate 60 % of the expected benefits over the life of the project).

In the event that the risk-free rate (GO Bond rate) is used, then benefits and costs must be subjected to sensitivity analysis.

9) REPORTING

It is important to determine how well the expected benefits and costs are tracking with the actual results. This helps staff to improve future forecasts and to determine the financial effectiveness of the project.

In most instances, the Commissioner of Revenue's staff must compile project revenues for projects. The Commissioner of Revenue will not disclose information for any single business entity. In addition, the type of revenue (i.e. business license, personal property taxes, etc) may not be disclosed. Thus, if a project is related to one business, the revenues will have to be estimated.

Staff should submit quarterly reports comparing actual to estimated benefits and costs to the Finance Committee in the designated standard format.

10) QUALITATIVE ANALYSIS

Cost is never the only reason to use public-private partnerships. Many qualitative factors must also be considered but they are not a part of this guide.

The second highest reason is the access to specialized expertise and proprietary technology. As generalists, governments cannot afford to provide or maintain such know-how in-house, especially in the area of information and communication technology. The laboratory of the competitive private sector accelerates change to a rate that cannot be matched in the public sector. Even in other more traditional areas, like environmental control systems, the private sector develops advanced techniques that are better left to their proprietary owner to operate, even if the new technology is installed by the public sector on its own. This is related to another key benefit of partnerships: the sharing of risks with the private sector. In developing complex projects, the private sector can guarantee fixed or maximum prices for construction and eventual operation of systems, relieving the government of its open-ended financial risk in those areas. A private provider can also guarantee the effectiveness and efficiency of the technology it installs, giving public agencies access to such technologies without innovation or performance risk. In some cases, as with concessions, the private provider can even relieve the government of market risk or rate/pricing risk. In most cases, all the risks in a partnership can be distributed among the parties by having the party best equipped to handle each of them take on that responsibility. Lastly, use of the private sector can help governments to address sensitive political and labor issues.

The third highest reason for public-private partnerships is to accomplish objectives when the city government can not directly take on an issue. With the flexibility and efficiency of private developers and operators, the public can sometimes enlist the private sector to handle more easily problems such as downsizing, coordination of political entities, regionalization, implementation of difficult policies and cross border relationships.

APPENDIX A: DEFINITION OF TERMS

- 1) Benefits- Tangible revenues expected to be generated by the project for the City. The revenues will be recognized on a cash basis.
- 2) Costs- Amounts paid by the City to acquire, construct, improve or operate the project including opportunity costs.
- 3) Discount rate- The rate used in calculating the present value of expected benefits and costs. Generally, this will have some relation to (but will not reasonably be equal to) the private partner's cost of borrowing funds.
- 4) Government obligation (GO) bond rate- The bond rate associated with the latest GO bond issue.
- 5) Inflation- A general increase in the price level over time.
- 6) Net present value (NPV)– The value (in today's dollars) of the expected whole-life-cycle value of providing, maintaining and operating the activity in question, together with operating and relevant associated services, expressed as a figure in today's dollars by discounting all future payment obligations at the Discount Rate.
- 7) Nominal interest rate- An interest rate that is not adjusted to remove the effect of expected inflation.
- 8) Private partner- The private sector partner selected through a competitive procurement process to provide the contractual service to the public partner.
- 9) Private partner desired profit rate- The rate of profit that a private partner desires from their investment.
- 10) Project life- the shorter of the useful life of the project or the financing period for the debt.
- 11) Public private partnerships- A generic term for projects involving both the public and private sectors (with varying levels of involvement and responsibility).
- 12) Residual Value – The expected value of a project, structure, or other entity upon which NPV is being projected, after the term of the NPV structure. Such residual value may well include the costs and benefits that may accrue after the NPV term.
- 13) Real interest rate- An interest rate that has been adjusted to remove the effect of expected or actual inflation.

- 14) Sensitivity analysis- A technique for evaluating the NPV results by changing assumptions and/or the discount rate.
- 15) Sunk cost- A cost incurred in the past that will not be affected by any present or future decision. Sunk costs should be ignored in determining whether a project is worthwhile.
- 16) Weighting factor- The weights applied to the GO bond rate and the private partner desired profit rate in order to compute the effective discount rate to be used in determining the net present value associated with the project.

APPENDIX B

Name of Project
 Net Present Value Analysis
 Standard Model for Public-Private Partnerships

	Actual Rate	Weighting Factor	Effective Rate	Year 1	Year 2	Year 3	Year N
Discount Rate							
GO Bond Rate	(1)	(3)	0%				
Private sector return expectation	(2)	(3)	0. (4)				
			0.00%				
Benefits (5)				Total for All Years			
Direct Taxes, Fees and Interest	\$ -	\$ -	\$ -				
Indirect Taxes and Fees (Rising Tide)	-	-	-				
Total Benefits	-	-	-				
Costs(6)							
Cost of Investment (acquire, build or improve)	-	-	-				
Operating and Maintenance Costs	-	-	-				
Interest Costs	-	-	-				
Opportunity Costs	-	-	-				
Total Costs	-	-	-				
Net Benefits (Costs)	\$ -	\$ -	\$ -				
Net Present Value	\$ -	\$ -	\$ -				

Notes:

- (1) Represents the estimated City's general obligation bond interest rate based on the current market data as of _____
- (2) Represents the private sector's expected return for this project ; This data was obtained from _____
- (3) Weighting factor based on _____ approach .
- (4) Expected return for the City based on the amount invested in the project.
- (5) Information is linked to the "Benefits" sheet. See the "Benefits" sheet for the detailed revenues and assumptions.
- (6) Information is linked to the "Costs" sheet. See the "Costs" sheet for the detailed costs and assumptions.

APPENDIX B

Name of Project
 Net Present Value Analysis
 Supporting Worksheet for Benefits

Assumption Reference	Benefits	Total for All Years	Year 1	Year 2	Year 3	Year N
	Real estate tax	\$ -	\$ -	\$ -	\$ -	\$ -
	Personal property tax	-	-	-	-	-
	Business license tax	-	-	-	-	-
	Sales and use tax	-	-	-	-	-
	Lodging tax	-	-	-	-	-
	Meal Tax	-	-	-	-	-
	Amusement tax	-	-	-	-	-
	Direct Taxes and Fees	-	-	-	-	-
	Real estate tax	-	-	-	-	-
	Personal property tax	-	-	-	-	-
	Business license tax	-	-	-	-	-
	Sales and use tax	-	-	-	-	-
	Lodging tax	-	-	-	-	-
	Meal Tax	-	-	-	-	-
	Amusement tax	-	-	-	-	-
	Indirect Taxes and Fees(Rising Tide)	-	-	-	-	-
	Total Benefits	\$ -	\$ -	\$ -	\$ -	\$ -

ASSUMPTIONS :

APPENDIX B

Name of Project
 Net Present Value Analysis
 Supporting Worksheet for Costs

Assumption Reference	Costs	Total for All Years	Year 1	Year 2	Year 3	Year N
	Acquisition of land	\$ -	\$ -	\$ -	\$ -	\$ -
	Acquire/Construct Building & Equipment	-	-	-	-	-
	Capital improvements to project	-	-	-	-	-
	Costs of investment	-	-	-	-	-
	Salaries & Wages	-	-	-	-	-
	Operating Expenses	-	-	-	-	-
	Capital purchases	-	-	-	-	-
	Operating and maintenance costs	-	-	-	-	-
	Interest expense	-	-	-	-	-
	Sale of property for less than FMV	-	-	-	-	-
	Contribution of property to project	-	-	-	-	-
	Other	-	-	-	-	-
	Opportunity costs	-	-	-	-	-
	Total Costs	\$ -	\$ -	\$ -	\$ -	\$ -

ASSUMPTIONS :

APPENDIX C: EXAMPLE

Project Summary

The City of VT plans to redevelop part of their downtown. The goals are to strengthen the downtown area and to optimize the value of underutilized real estate assets. Two sites are existing City-owned surface parking areas, one site is the air rights of an existing City-owned garage, and one site is to be acquired from a potential tenant in the proposed development. The proposed developments have been organized into six public projects and three private components. The total development cost of the public and private development components is \$82.3 million. The Developer has indicated that he expects to earn a 25 percent return on this project.

Development Scope

The three commercial developments include retail at the street level with market rental and/or condominium housing above. The Lot 2 site includes retail space at the street level, a transit transfer center and housing above the retail. The estimated development required to finance, design, develop and construct the private development components is \$64.6 million. Twenty percent of each private development includes affordable housing units.

The public projects include replacement parking, the transit transfer center, a city-owned garage and a second –level pedestrian bridge. The total development costs for the public component is \$17.7 million.

The City of VT will lease land to the developer for a \$1 per year. This land was recently appraised at \$ 4.5 million.

The City has issued 20 year General Obligation Bonds at an interest rate of 5.25 percent to finance the public projects.

The City has forecasted that it will generate \$51.8 million in real estate and sales taxes over twenty years and a positive cash flow of \$16.5 million.

See results of the Analysis on the following worksheets:

- **Summary Cash Flow and Net Present Value AnalysisC1**
- **Net Present Value Analysis (Government Approach).....C2-C5**
- **Supporting Worksheet for BenefitsC6-C8**
- **Supporting Worksheet for CostsC9-C12**
- **Sensitivity Analysis (Government Approach).....C13**
- **Net Present Value Analysis – Summarized by Approach.....C14**

APPENDIX C

City of VT Downtown Redevelopment Project
 Summary Cash Flow and Net Present Value Analysis
 Using the Government Approach for the Discount Rate

Year	Total Benefits	Total Costs	Net Benefits (Costs)	Net Present Value
1	\$ -	\$ 14,972,546	\$ (14,972,546)	\$ (13,534,300)
2	1,316,000	4,705,020	(3,389,020)	(2,769,201)
3	1,936,960	977,831	959,129	708,431
4	2,016,669	949,153	1,067,516	712,746
5	2,099,849	918,907	1,180,942	712,737
6	2,186,658	887,009	1,299,649	709,034
7	2,277,263	853,367	1,423,896	702,197
8	2,371,836	817,889	1,553,947	692,719
9	2,470,558	780,476	1,690,082	681,035
10	2,573,621	2,741,024	(167,403)	(60,977)
11	2,681,223	699,421	1,981,802	652,532
12	2,793,573	655,553	2,138,020	636,346
13	2,910,889	609,297	2,301,592	619,228
14	3,033,400	560,525	2,472,875	601,401
15	3,161,345	509,101	2,652,244	583,063
16	3,294,976	454,881	2,840,095	564,385
17	3,434,555	397,718	3,036,837	545,512
18	3,580,358	337,449	3,242,909	526,572
19	3,732,674	273,912	3,458,762	507,673
20	3,891,804	2,206,927	1,684,877	223,548
Total	\$ 51,764,211	\$ 35,308,006	\$ 16,456,205	\$ (5,985,319)

APPENDIX C
City of VT Downtown Redevelopment Project
Net Present Value Analysis
Standard Model for Public-Private Partnerships

	Actual Rate	Weighting Factor	Effective Rate
Discount Rate			
GO Bond Rate	5.25% (1)		5.25%
Private sector return expectation	25% (2)	22% (3)	5.38% (4)
			10.63%

	Total for All Years	Year 1	Year 2	Year 3	Year 4
Benefits (5)					
Direct Taxes, Fees and Interest	\$ 51,764,210	\$ -	\$ 1,316,000	\$ 1,936,960	\$ 2,016,669
Indirect Taxes and Fees (Rising Tide)	-	-	-	-	-
Total Benefits	51,764,210	-	1,316,000	1,936,960	2,016,669
Costs(6)					
Cost of Investment (acquire, build or improve)	21,700,000	14,000,000	3,700,000	-	-
Operating and Maintenance Costs	1,507,012	-	60,000	61,800	63,654
Interest Costs	11,100,995	922,546	895,020	866,031	835,499
Opportunity Costs	1,000,000	50,000	50,000	50,000	50,000
Total Costs	35,308,007	14,972,546	4,705,020	977,831	949,153
Net Benefits (Costs)	\$ 16,456,203	\$ (14,972,546)	\$ (3,389,020)	\$ 959,129	\$ 1,067,516
Net Present Value	\$ (5,985,318)	\$ (13,534,300)	\$ (2,769,201)	\$ 708,431	\$ 712,746

Notes:

- (1) Represents the estimated City's general obligation bond interest rate based on the current market data as of July 2005.
- (2) Represents the private sector's expected return for this project ; This data was obtained from the developer.
- (3) Determined based on the City's investment of \$17.7 million to the total investment of 82.3 million.
- (4) Expected return for the City based on the amount invested in the project.
- (5) Information is linked to the "Benefits" sheet. See the "Benefits" sheet for the detailed revenues and assumptions.
- (6) Information is linked to the "Costs" sheet. See the "Costs" sheet for the detailed costs and assumptions.

APPENDIX C

City of VT Downtown Redevelopment Project
 Net Present Value Analysis
 Standard Model for Public-Private Partnerships

	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Benefits (5)						
Direct Taxes, Fees and Interest	\$ 2,099,849	\$ 2,186,658	\$ 2,277,263	\$ 2,371,836	\$ 2,470,558	\$ 2,573,621
Indirect Taxes and Fees (Rising Tide)	-	-	-	-	-	-
Total Benefits	<u>2,099,849</u>	<u>2,186,658</u>	<u>2,277,263</u>	<u>2,371,836</u>	<u>2,470,558</u>	<u>2,573,621</u>
Costs(6)						
Cost of Investment (acquire, build or improve)	-	-	-	-	-	2,000,000
Operating and Maintenance Costs	65,564	67,531	69,556	71,643	73,792	76,006
Interest Costs	803,343	769,478	733,811	696,246	656,684	615,018
Opportunity Costs	50,000	50,000	50,000	50,000	50,000	50,000
Total Costs	<u>918,907</u>	<u>887,009</u>	<u>853,367</u>	<u>817,889</u>	<u>780,476</u>	<u>2,741,024</u>
Net Benefits (Costs)	<u>\$ 1,180,942</u>	<u>\$ 1,299,650</u>	<u>\$ 1,423,895</u>	<u>\$ 1,553,946</u>	<u>\$ 1,690,082</u>	<u>\$ (167,403)</u>
Net Present Value	<u>\$ 712,737</u>	<u>\$ 709,034</u>	<u>\$ 702,197</u>	<u>\$ 692,719</u>	<u>\$ 681,035</u>	<u>\$ (60,977)</u>

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City of VT Downtown Redevelopment Project
 Net Present Value Analysis
 Standard Model for Public-Private Partnerships

	Year 11	Year 12	Year 13	Year 14	Year 15	Year 16
Benefits (5)						
Direct Taxes, Fees and Interest	\$ 2,681,223	\$ 2,793,573	\$ 2,910,889	\$ 3,033,400	\$ 3,161,345	\$ 3,294,976
Indirect Taxes and Fees (Rising Tide)	-	-	-	-	-	-
Total Benefits	<u>2,681,223</u>	<u>2,793,573</u>	<u>2,910,889</u>	<u>3,033,400</u>	<u>3,161,345</u>	<u>3,294,976</u>
Costs (6)						
Cost of Investment (acquire, build or improve)	-	-	-	-	-	-
Operating and Maintenance Costs	78,286	80,635	83,054	85,546	88,112	90,755
Interest Costs	571,135	524,918	476,243	424,979	370,989	314,126
Opportunity Costs	50,000	50,000	50,000	50,000	50,000	50,000
Total Costs	<u>699,421</u>	<u>655,553</u>	<u>609,297</u>	<u>560,525</u>	<u>509,101</u>	<u>454,881</u>
Net Benefits (Costs)	<u>\$ 1,981,802</u>	<u>\$ 2,138,020</u>	<u>\$ 2,301,592</u>	<u>\$ 2,472,875</u>	<u>\$ 2,652,244</u>	<u>\$ 2,840,094</u>
Net Present Value	<u>\$ 652,532</u>	<u>\$ 636,346</u>	<u>\$ 619,228</u>	<u>\$ 601,401</u>	<u>\$ 583,063</u>	<u>\$ 564,385</u>

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City of VT Downtown Redevelopment Project
 Net Present Value Analysis
 Standard Model for Public-Private Partnerships

	Year 17	Year 18	Year 19	Year 20
Benefits (5)				
Direct Taxes, Fees and Interest	\$ 3,434,555	\$ 3,580,358	\$ 3,732,674	\$ 3,891,804
Indirect Taxes and Fees (Rising Tide)	-	-	-	-
Total Benefits	<u>3,434,555</u>	<u>3,580,358</u>	<u>3,732,674</u>	<u>3,891,804</u>
Costs(6)				
Cost of Investment (acquire, build or improve)	-	-	-	2,000,000
Operating and Maintenance Costs	93,478	96,282	99,171	102,146
Interest Costs	254,240	191,167	124,741	54,781
Opportunity Costs	50,000	50,000	50,000	50,000
Total Costs	<u>397,718</u>	<u>337,449</u>	<u>273,912</u>	<u>2,206,927</u>
Net Benefits (Costs)	<u>\$ 3,036,837</u>	<u>\$ 3,242,909</u>	<u>\$ 3,458,762</u>	<u>\$ 1,684,877</u>
Net Present Value	<u>\$ 545,512</u>	<u>\$ 526,572</u>	<u>\$ 507,673</u>	<u>\$ 223,548</u>

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City of VT Downtown Redevelopment Project
Supporting Worksheet for Benefits

Assumption Reference	Benefits	Total for All Years	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
(A)	Real estate tax	\$ 20,481,235	\$ -	\$ 416,000	\$ 856,960	\$ 882,669	\$ 909,149	\$ 936,423
	Personal property tax	-	-	-	-	-	-	-
	Business license tax	-	-	-	-	-	-	-
(B)	Sales and use tax	31,282,975	-	900,000	1,080,000	1,134,000	1,190,700	1,250,235
	Lodging tax	-	-	-	-	-	-	-
	Meal Tax	-	-	-	-	-	-	-
	Amusement tax	-	-	-	-	-	-	-
	Direct Taxes and Fees	<u>51,764,210</u>	<u>-</u>	<u>1,316,000</u>	<u>1,936,960</u>	<u>2,016,669</u>	<u>2,099,849</u>	<u>2,186,658</u>
	Real estate tax	-	-	-	-	-	-	-
	Personal property tax	-	-	-	-	-	-	-
	Business license tax	-	-	-	-	-	-	-
	Sales and use tax	-	-	-	-	-	-	-
	Lodging tax	-	-	-	-	-	-	-
	Meal Tax	-	-	-	-	-	-	-
	Amusement tax	-	-	-	-	-	-	-
	Indirect Taxes and Fees(Rising Tide)	-	-	-	-	-	-	-
	Total Benefits	<u>\$ 51,764,210</u>	<u>\$ -</u>	<u>\$ 1,316,000</u>	<u>\$ 1,936,960</u>	<u>\$ 2,016,669</u>	<u>\$ 2,099,849</u>	<u>\$ 2,186,658</u>

ASSUMPTIONS :

(A) Initial year assessment of \$65 million at 1.28/100 tax rate, assuming one-half year billing; projected inflationary growth of 3 percent for all other years.
 (B) Initial year sales base of \$30 million at 3 percent tax rate; base projected to grow at 20 percent in second year and 2 percent thereafter. Inflation factor of 3 percent applied.

These estimates were developed by the City's consultant. Staff reviewed the estimates and decided to discount the sales and use tax estimates by 50 percent.

It has been the experience of the City that projects similar to this may have a longer lead time in securing the appropriate tenants and it is expected that this development will cause some displacement in the City's overall economy.

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City of VT Downtown Redevelopment Project
Supporting Worksheet for Benefits

Assumption Reference	Benefits	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13
(A)	Real estate tax	\$ 964,516	\$ 993,452	\$ 1,023,255	\$ 1,053,953	\$ 1,085,571	\$ 1,118,138	\$ 1,151,683
	Personal property tax							
	Business license tax							
(B)	Sales and use tax	1,312,747	1,378,384	1,447,303	1,519,668	1,595,652	1,675,434	1,759,206
	Lodging tax							
	Meal Tax							
	Amusement tax							
	Direct Taxes and Fees	<u>2,277,263</u>	<u>2,371,836</u>	<u>2,470,558</u>	<u>2,573,621</u>	<u>2,681,223</u>	<u>2,793,573</u>	<u>2,910,889</u>
	Real estate tax							
	Personal property tax							
	Business license tax							
	Sales and use tax							
	Lodging tax							
	Meal Tax							
	Amusement tax							
	Indirect Taxes and Fees(Rising Tide)							
	Total Benefits	<u>\$ 2,277,263</u>	<u>\$ 2,371,836</u>	<u>\$ 2,470,558</u>	<u>\$ 2,573,621</u>	<u>\$ 2,681,223</u>	<u>\$ 2,793,573</u>	<u>\$ 2,910,889</u>

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City of VT Downtown Redevelopment Project
Supporting Worksheet for Benefits

Assumption Reference	Benefits	Year 14	Year 15	Year 16	Year 17	Year 18	Year 19	Year 20
(A)	Real estate tax	\$ 1,186,233	\$ 1,221,820	\$ 1,258,475	\$ 1,296,229	\$ 1,335,116	\$ 1,375,169	\$ 1,416,424
	Personal property tax							
	Business license tax							
(B)	Sales and use tax	1,847,167	1,939,525	2,036,501	2,138,326	2,245,242	2,357,505	2,475,380
	Lodging tax							
	Meal Tax							
	Amusement tax							
	Direct Taxes and Fees	<u>3,033,400</u>	<u>3,161,345</u>	<u>3,294,976</u>	<u>3,434,555</u>	<u>3,580,358</u>	<u>3,732,674</u>	<u>3,891,804</u>
	Real estate tax							
	Personal property tax							
	Business license tax							
	Sales and use tax							
	Lodging tax							
	Meal Tax							
	Amusement tax							
	Indirect Taxes and Fees(Rising Tide)							
	Total Benefits	<u>\$ 3,033,400</u>	<u>\$ 3,161,345</u>	<u>\$ 3,294,976</u>	<u>\$ 3,434,555</u>	<u>\$ 3,580,358</u>	<u>\$ 3,732,674</u>	<u>\$ 3,891,804</u>

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City of VT Downtown Redevelopment Project
Supporting Worksheet for Costs

Assumption Reference	Costs	Total for All Years	Year 1	Year 2	Year 3	Year 4	Year 5
(A)	Acquisition of land	\$ 2,000,000	\$ 2,000,000	\$ -	\$ -	\$ -	\$ -
(B)	Acquire/Construct Project	15,700,000	12,000,000	3,700,000	-	-	-
(C)	Capital improvements to project	4,000,000	-	-	-	-	-
	Costs of investment	<u>21,700,000</u>	<u>14,000,000</u>	<u>3,700,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
(D)	Salaries & Wages	1,004,675	-	40,000	41,200	42,436	43,709
(E)	Operating Expenses	502,337	-	20,000	20,600	21,218	21,855
	Capital purchases	-	-	-	-	-	-
	Operating and maintenance costs	<u>1,507,012</u>	<u>-</u>	<u>60,000</u>	<u>61,800</u>	<u>63,654</u>	<u>65,564</u>
(F)	Interest expense	11,100,995	922,546	895,020	866,031	835,499	803,343
	Sale of property for less than FMV	-	-	-	-	-	-
	Contribution of property to project	-	-	-	-	-	-
(G)	Other	1,000,000	50,000	50,000	50,000	50,000	50,000
	Opportunity costs	<u>1,000,000</u>	<u>50,000</u>	<u>50,000</u>	<u>50,000</u>	<u>50,000</u>	<u>50,000</u>
	Total Costs	<u>\$ 24,207,012</u>	<u>\$ 14,050,000</u>	<u>\$ 3,810,000</u>	<u>\$ 111,800</u>	<u>\$ 113,654</u>	<u>\$ 115,564</u>

ASSUMPTIONS :

- (A) Site expected to be acquired from a potential tenant in the proposed development. 5 acres at 400,000 per acre.
- (B) Estimated costs to construct garage and other improvements based on review by City Engineer.
- (C) Projected improvements needed to maintain garage . Based on study performed by outside consultant.
- (D) One employee will be used to maintain garage. Applied inflation factor of 3 percent.
- (E) Operating supplies, parts, and utilities required to operate the garage. Based on costs to operate an existing City garage. Applied inflation factor of 3 percent.
- (F) Represents the difference between market rental for similar commercial land and the City's agreed upon rental price of \$1 per year.

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City of VT Downtown Redevelopment Project
Supporting Worksheet for Costs

Assumption Reference	Costs	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11
(A)	Acquisition of land	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
(B)	Acquire/Construct Project	-	-	-	-	2,000,000	-
(C)	Capital improvements to project	-	-	-	-	2,000,000	-
	Costs of investment						
(D)	Salaries & Wages	45,020	46,371	47,762	49,195	50,671	52,191
(E)	Operating Expenses	22,510	23,185	23,881	24,597	25,335	26,095
	Capital purchases	-	-	-	-	-	-
	Operating and maintenance costs	<u>67,531</u>	<u>69,556</u>	<u>71,643</u>	<u>73,792</u>	<u>76,006</u>	<u>78,286</u>
(F)	Interest expense	769,478	733,811	696,246	656,684	615,018	571,135
	Sale of property for less than FMV						
	Contribution of property to project						
(G)	Other	50,000	50,000	50,000	50,000	50,000	50,000
	Opportunity costs	<u>50,000</u>	<u>50,000</u>	<u>50,000</u>	<u>50,000</u>	<u>50,000</u>	<u>50,000</u>
	Total Costs	<u>\$ 117,531</u>	<u>\$ 119,556</u>	<u>\$ 121,643</u>	<u>\$ 123,792</u>	<u>\$ 2,126,006</u>	<u>\$ 128,286</u>

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City of VT Downtown Redevelopment Project
Supporting Worksheet for Costs

Assumption Reference	Costs	Year 12	Year 13	Year 14	Year 15	Year 16	Year 17
(A)	Acquisition of land	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
(B)	Acquire/Construct Project	-	-	-	-	-	-
(C)	Capital improvements to project	-	-	-	-	-	-
	Costs of investment	-	-	-	-	-	-
(D)	Salaries & Wages	53,757	55,369	57,030	58,741	60,504	62,319
(E)	Operating Expenses	26,878	27,685	28,515	29,371	30,252	31,159
	Capital purchases	-	-	-	-	-	-
	Operating and maintenance costs	80,635	83,054	85,545	88,112	90,755	93,478
(F)	Interest expense	524,918	476,243	424,979	370,989	314,126	254,240
	Sale of property for less than FMV	-	-	-	-	-	-
(G)	Contribution of property to project	50,000	50,000	50,000	50,000	50,000	50,000
	Other	50,000	50,000	50,000	50,000	50,000	50,000
	Opportunity costs	100,000	100,000	100,000	100,000	100,000	100,000
	Total Costs	\$ 130,635	\$ 133,054	\$ 135,546	\$ 138,112	\$ 140,755	\$ 143,478

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City of VT Downtown Redevelopment Project
Supporting Worksheet for Costs

Assumption Reference	Costs	Year 18	Year 19	Year 20
(A)	Acquisition of land	\$ -	\$ -	\$ -
(B)	Acquire/Construct Project	-	-	2,000,000
(C)	Capital improvements to project	-	-	2,000,000
	Costs of investment			
(D)	Salaries & Wages	64,188	66,114	68,097
(E)	Operating Expenses	32,094	33,057	34,049
	Capital purchases	-	-	-
	Operating and maintenance costs	<u>96,282</u>	<u>99,171</u>	<u>102,146</u>
(F)	Interest expense	191,167	124,741	54,781
	Sale of property for less than FMV			
	Contribution of property to project			
(G)	Other	50,000	50,000	50,000
	Opportunity costs	<u>50,000</u>	<u>50,000</u>	<u>50,000</u>
	Total Costs	<u>\$ 146,282</u>	<u>\$ 149,171</u>	<u>\$ 2,152,146</u>

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City of VT Downtown Redevelopment Project
Sensitivity Analysis
Standard Model for Public-Private Partnerships

Assumption Change	Net Present Value Amount
Initial Calculation	\$ (5,985,318)
Discount Rate decreased to 9%	\$ 4,458,268
Revenue grows by 5% each year at 10.63% discount rate	\$ 513,640
Revenue grows by 5% each year at 9% discount rate	\$ 3,111,680

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City of VT Downtown Redevelopment Project
 Net Present Value Analysis-Summarized by Approach

	<u>Partnership Approach</u>	<u>Risk Approach</u>	<u>Government Approach</u>	<u>Cost of Capital Approach</u>
Discount Rate	20.66%	10.50%	10.63%	5.25%
Net Present Value	\$ (10,263,228)	\$ (5,879,396)	\$ (5,985,318)	\$ 909,357



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Stephenie Fox
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International Federation of Accountants
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25 February 2010

Dear Stephenie

IPSASB Consultation Paper: 'Reporting on the Long-term Sustainability of Public Finances'

1. I am writing on behalf of the UK Accounting Standards Board's (ASB) Committee on Accounting for Public-benefit Entities.
2. In its letter dated 28 July 2008, the ASB expressed strong support for IPSASB taking forward a project on long-term fiscal sustainability. We share this view and welcome the opportunity to comment on IPSASB's consultation paper '*Reporting on the Long-term Sustainability of Public Finances*'.
3. We believe the IPSASB consultation paper is valuable. In particular, it provides a clear, principles-based framework that should encourage governments and other public sector entities to systematically report information in general purpose financial reports on the long-term consequences of government programs.
4. We agree with most of the proposals that are made and consider these will result in improvements to the financial reporting of governments, particularly given the additional pressures on the public finances that have arisen as a result of the financial crisis. We also note the proposal to include information on long-term fiscal sustainability in general purpose financial reports is consistent with paragraph 10 of the IASB's Exposure Draft '*Management Commentary*', which discusses time-frames and notes that '*management commentary looks not only at the present, but also the past and the future*'.

5. We consider that information on long-term fiscal sustainability should be regarded as falling within the scope of general purpose financial reporting and is particularly suited to the narrative report. We note that IPSASB's conceptual framework project is considering further issues such as the scope of general purpose financial reporting and the extent to which commitments to provide social benefits should be reported as liabilities in the balance sheet. These are important issues that are expected to impact upon any guidance that IPSASB might issue on long-term fiscal sustainability. However, we do not consider that IPSASB should wait until work is completed on the conceptual framework before issuing guidance on long-term fiscal sustainability. Any guidance issued can then be updated as appropriate.

6. One of the most significant issues raised in the consultation paper is the time periods to be covered. When very long time horizons, e.g. 75 years, are used, the assumptions used are likely to be very fragile and could undermine the value of the projected information for the whole period considered. We suggest that IPSASB consider including some caution about the difficulty of selecting assumptions that are intended to be valid over very long periods. One possibility may be to recommend projections for a number of different periods.

7. We note the consultation paper does not set out the next steps for this project, including any subsequent due process. This may be because a decision has not yet been taken and IPSASB is intending to consider responses to the consultation paper alongside developments in its other projects and the IASB Framework and Management Commentary projects. Whilst we appreciate the need to take account of these other projects, we would encourage IPSASB to avoid any unnecessary delay in progressing its work on long-term fiscal sustainability. We would also support an approach that results in non-mandatory guidance rather than an IPSAS.

8. The Appendix to this letter addresses each of the Preliminary Views raised in the consultation paper. If you require any further information please contact me or Alan O'Connor (a.oconnor@frc-asb.org.uk) or telephone +44 (0)20 7492 2421).

Yours sincerely



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Appendix

Comments on Preliminary Views

PV 1 The presentation of information on long-term fiscal sustainability is necessary to meet the objectives of financial reporting (accountability and decision-making) as proposed in the IPSASB's Consultation Paper, "Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities," issued in September 2008. (Section Two)

Response

- 1.1 We agree that information on long-term fiscal sustainability would be useful to users of general purpose financial reports of governments and other public sector reporting entities. We consider the information would support accountability and decision-making, particularly where there is an expectation that certain services, such as state pensions and other welfare benefits, will be provided for an indefinite period.
- 1.2 We agree that information on long-term fiscal sustainability has the potential to enhance the information in general purpose financial reports and is consistent with the objectives of financial reporting. However, we do not consider that it is essential or necessary to meet the objectives of financial reporting and would therefore question the use of the word 'necessary' in the Preliminary View.

PV 2 IPSASB guidance should recommend that long-term fiscal sustainability information in GPFRs be presented either through:

- **Additional statements providing details of projections; or**
- **Summarized projections in narrative reporting. (Section Three)**

Response

- 2.1 The consultation paper puts forward three models for presenting information on long-term fiscal sustainability in general purpose financial reports. These are (i) additional statements providing details of projections; (ii) summarized projections in narrative reporting; and (iii) cross references in GPFRs to other reports addressing long-term fiscal sustainability. We consider there is scope for each of these models to contribute to the information that entities may present in general purpose financial reports on long-term fiscal sustainability.
- 2.2 The wording of the Preliminary View appears restrictive, suggesting that reporting entities should use one model or the other. We would suggest reporting entities should be allowed to use any of the three models and, where appropriate, a combination of each of the three models. We consider the approach adopted should be based on the entity's circumstances and how it might best present information on the long-term sustainability of its activities, including how these activities will be financed.

- 2.3 We do not think that model three should be rejected, although we acknowledge that, in itself, a cross-reference from the narrative report or the notes to the financial statements to information on long-term fiscal sustainability in other publicly available reports may not be that helpful to users of general purpose financial reports. We would suggest that IPSASB develop model three to encourage reporting entities to provide cross-references and to also provide, as appropriate, information in the general purpose financial report in accordance with models one and two.
- 2.4 We accept that, in developing model three, there are risks in trying to summarise what is often voluminous and complex information in special reports. We agree with IPSASB that the emphasis should be on 'summarising' information that is already being generated; something that we consider falls well within the skill set of an accountant preparing a general purpose financial report. We would also expect this type of web signposting to become more helpful as more entities make their financial reports available on-line.

PV 3 IPSASB guidance should be based on the concept of the reporting entity and should provide recommended practice for consolidated reports presented by all levels of government. (Section Four)

Response

- 3.1 We agree that it is desirable and necessary for the boundary for reporting on long-term fiscal sustainability should be the same as that used for general purpose financial reports. If IPSASB were to consider a different boundary, for example based upon statistical bases of accounting or a budget framework, there would be a strong case for not publishing information on long-term fiscal sustainability together with general purpose financial reports as this might be confusing.
- 3.2 We accept there may be instances where information on long-term fiscal sustainability will be useful to users of general purpose financial reports at lower tiers of government. We also agree with IPSASB that the nature and extent of the reports that may be required at sub-national level will vary and that deciding what indicators and other information might be provided on long-term fiscal sustainability is a matter for individual reporting entities.
- 3.3 We agree the requirement to include information on long-term fiscal sustainability should apply to the consolidated accounts of reporting entities. We also agree there are risks to understandability if individual entities within an economic entity produce separate sustainability reports and disclosures. However, there may be circumstances where such an approach might be appropriate and where, with adequate explanation, individual entities should be able to mitigate the risks to understandability. For this reason, we would suggest the guidance allows sustainability reporting at the individual reporting entity, subject to satisfying understandability and cost-benefit criteria.

PV 4 IPSASB guidance should recommend that long-term fiscal sustainability indicators be selected based on (a) their relevance to the entity, (b) the extent to which the indicators meet the qualitative characteristics of financial reporting, and (c) their ability to describe the scale of the fiscal challenge facing the entity. It should also recommend that comparative information is provided and that the reasons for ceasing to report indicators, if this occurs, are disclosed. (Section Five)

Response

- 4.1 There is an argument that, in the interests of comparability, it might be preferable for IPSASB to encourage a more standardized format for reporting information on long-term fiscal sustainability. However, on balance, we agree that the guidance should not be prescriptive and that the choice of what indicators to use should be left to the reporting entity. We would also suggest that comparability across reporting entities is not a primary objective.
- 4.2 We also accept the need to select indicators based on the extent to which they meet the qualitative characteristics of financial reporting, but note there are some tensions that arise as a result of these qualitative characteristics being set in the context of historical financial information. In particular, we consider there are tensions around verifiability which will presumably need to be redefined because information on long-term fiscal sustainability will not be prepared to the same degree of accuracy of precision that is required for financial statements.
- 4.3 We consider further the desirability of having some form of assurance regards the information that will be presented on long-term fiscal sustainability in our response to Preliminary View 6.
- 4.4 We agree that comparative information should be provided and that the reasons for ceasing to report indicators, if this occurs, should be disclosed.
- 4.5 We note there is some overlap in parts (a) and (b) of the preliminary view with regard to relevance, which is the focus of (a) but also covered as part of the qualitative characteristics in (b). We would suggest that relevance is included as part of the general discussion of qualitative characteristics and not as a separate issue.

PV 5 IPSASB guidance on long-term fiscal sustainability reporting in GPFs should recommend that the entity disclose:

- **Any deviations from the principle that long-term fiscal sustainability projections are based on current policy;**
- **The basis on which projections of inflows from taxation and other material revenue sources have been made;**
- **Any other key assumptions underpinning long-term fiscal sustainability projections; and**

- **Details of key aspects of governing legislation and regulation, and the underlying macro-economic policy and fiscal framework. (Section Six)**

Response

- 5.1 We support the recommendations. Whilst we are concerned the number of recommended disclosures will result in greater complexity in an entity's general purpose financial report, we consider the disclosures are necessary to ensure the information reported on long-term fiscal sustainability is understandable to users and meets the objectives of financial reporting. The risk of introducing complexity will, however, need to be managed.
- 5.2 We agree the need to disclose the assumptions underlying the reporting of future inflows from taxation, particularly as the basis for preparing this information may range from a fairly straightforward projection that assumes taxation is a constant proportion of GDP to more sophisticated approaches.
- 5.3 We agree the need to provide details of key aspects of governing legislation and regulation, and the underlying macro-economic policy and fiscal framework. This is a highly complex area and we note that paragraph 6.6.2 of the consultation paper suggests that, to avoid this information becoming over-detailed and therefore undermining understandability, it may be appropriate to cross-refer to other publicly available reports. We would agree with this approach which provides a good example of how reporting entities might want to combine the three reporting models that are considered in section 3 of the consultation paper (and discussed under Preliminary View 2 above).

PV 6 IPSASB guidance on long-term fiscal sustainability reporting in GPFRs should recommend that the entity disclose:

- **Time horizons for fiscal sustainability projections presented or discussed in the GPFRs as well as the reason for modifying time horizons and any published plans to modify those horizons;**
- **Discount rates, together with the reason for their selection;**
- **Results of key sensitivity analyses; and**
- **Steps taken to ensure that projections are reliable. (Section Six)**

Response

- 6.1 We fully support the recommended disclosures in this Preliminary View and consider that, alongside the disclosures being recommended in Preliminary View 5, will ensure the information presented on long-term fiscal sustainability meets the objectives of financial reporting and is helpful to users. It is important that the rationale behind the fiscal sustainability numbers is both transparent and is understandable to users.

- 6.2 We also note that some of the information, for example on discount rates, will complement the disclosures supporting other information in the general purpose financial reports, in particular the balance sheet. We suggest the Preliminary View makes clear the need to explain both the type of discount rate used as well as the percentage rate applied.
- 6.3 We note in the covering letter that one of the most significant issues for reporting information on long-term fiscal sustainability is the decision on the time horizon to be covered. We are sceptical about the value of very long time horizons and suggest the disclosures should make very clear the inherent uncertainty that exists within a time horizon of 75 years or more. Inevitably, the longer the time horizon, the more fragile the assumptions underpinning the projections will become. On the other hand we acknowledge that shorter time horizons run the risk of ignoring key events that might fall just beyond the period chosen.
- 6.4 We consider that some of the examples in the consultation paper, for example exhibits five and six, over-emphasise the 75 year view. To help address this issue, we suggest IPSASB consider whether there might be scope to consider projections, and the assumptions that underpin them, over a series of shorter periods. For example, a 75 year time horizon could be made up of three periods, perhaps 10 years, 25 years and 75 years.
- 6.5 We would also note that some assumptions will be more fragile than others, for example there may be scope to make reasonably informed forecasts of the long-term financial consequences of social benefit programmes but it is far more difficult to foresee and factor in the impact of developments such as technological advance. This emphasises the importance of reporting on the results of key sensitivity analysis, including information on the range of uncertainty where demographic and economic projections are inherently uncertain.
- 6.6 We agree that it is important for general purpose financial reports to disclose the steps taken by the entity to ensure that projections are reliable. We appreciate that auditors might be reluctant to embrace sustainability reporting within their normal audit of financial statements, but the need for some form of external validation makes it desirable that the profession develops some form of assurance model. As a minimum, we would suggest a model that verified that assumptions were reasonable, properly disclosed and appropriately applied to base data in generating the projections that are being reported.
- 6.7 We note that determining an appropriate assurance model for long-term fiscal sustainability reports falls outside the scope of the IPSASB consultation. We believe the proposed guidance should emphasise the need to be clear on the extent of any assurance provided. We would also emphasise the need for the general purpose financial reports to be clear that the information on long-term fiscal sustainability does not fall within the 'presents fairly' basis upon which the financial statements are prepared and audited.

- 6.8 We would suggest the Preliminary View also makes clear the need to explain the impact of changes to assumptions, for example where forecasts of mortality rates or GDP growth rates are updated. The Preliminary View that the results of key sensitivity analyses should be disclosed could be expanded by specifically addressing this.

PV 7 IPSASB guidance on long-term fiscal sustainability reporting in GFRs should recommend that (a) the underlying projections should have been prepared or updated within five years of the reporting date, and (b) the date of preparation or update should be disclosed. (Section Seven)

Response

- 7.1 We acknowledge the potential mismatch between the reporting date of financial statements and the frequency with which fiscal projections might be made and updated. For this reason we agree the importance for general purpose financial reports to be clear on the timings of reports and updates.
- 7.2 We are however concerned that updating underlying projections only within 5 years of the reporting date is too infrequent. We would encourage some form of annual update, perhaps along the lines of an interim desk top valuation of property assets.
- 7.3 We would also suggest that a comparison of indicators or bottom line figures, showing the present situation against five or ten years ago, would be a helpful disclosure.



DIRECTORATE GENERAL STATISTICS

UNCLASSIFIED

Ian Carruthers
Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
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15 March 2010

Contact person: Mr. H. Olsson

Ext.: 7553

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Dear Mr. Carruthers,

Consultation on the Reporting on the Long-Term Sustainability of Public Finances (IPSASB)

I much appreciate and support the important work done by the International Public Sector Accounting Standards Board on the topic of the long-term sustainability of public finances. I agree with the need for data on contingent liabilities or other off-balance sheet liabilities which are expected to put a strain on government finances in the future and which at the moment are not included in the national accounts.

As many countries have already studied this issue, a benchmark study could be useful in order to see what information is already available and to find common ground for future reporting tables. Any data requests should be coordinated with the Economic Policy Committee Working Group on Aging Populations and Sustainability, or similar work being done on an international level in order to avoid double work and not to unduly increase the reporting burden for the reporting agencies.

Yours sincerely,

Gabriel Quirós
Head of Division, Euro Area Accounts and Economic Statistics

Swiss Public Sector Financial Reporting Advisory Committee (SRS-CSPCP)

Stephenie Fox
Technical Director
International Public Sector
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CANADA

Chavannes-Lausanne, March 18, 2010

**Swiss Comments to
Consultation Paper: „Reporting on the Long-Term Sustainability of
Public Finances“**

Dear Stephenie,

With reference to the request for comments on the proposed Consultation Paper, we are pleased to present the Swiss Comments to the Consultation Paper „Reporting on the Long-Term Sustainability of Public Finances“.

We thank you for giving us the opportunity to put forward our views and suggestions. You will find our comments to the Consultation Paper in the attached document.

Should you have any questions, please do not hesitate to contact us.

Yours sincerely,

SRS-CSPCP



Prof Nils Soguel, President



Sonja Ziehli, Secretary

Swiss Comments to the Consultation Paper

Swiss Comments to

Consultation Paper: „Reporting on the Long-Term Sustainability of Public Finances“

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1. Introduction

The Swiss Public Sector Financial Reporting Advisory Committee (SRS-CSPCP) has discussed the Consultation Paper „Reporting on the Long-Term Sustainability of Public Finances“ and comments as follows. The SRS-CSPSP was established in 2008 by the Swiss Federal Ministry of Finance together with the Ministers of Finance at the cantonal level (states). One of its aims is to provide the IPSAS Board with a consolidated statement for all the three Swiss levels of government (municipalities, cantons and Confederation).

2. Comments to the Consultation Paper “Reporting on the Long-Term Sustainability of Public Finances”

Fundamental Comments

- Recommendations on long-term sustainability reporting are welcomed in principle. However, this kind of reporting has nothing to do with accounting in the narrower sense and should not be governed in a mandatory Accounting Standard.
- The timing does not seem to be ideally chosen, because standard definitions are lacking, as long as the “Conceptual Framework” has not been completed.
- The question of whether such long-term sustainability reporting would also have to satisfy other demands – e.g. on the part of the International Monetary Fund or the World Bank – should be clarified.

The SRS-CSPCP welcomes in principle recommendations by the IPSAS Board for long-term sustainability reporting. As this kind of reporting has nothing to do with accounting in the narrower sense, it should not be governed in a mandatory Accounting Standard. In addition the timing of the Consultation Paper is not practical: as long as the “Conceptual Framework” has not been concluded, standard definitions are lacking, which seriously impede an assessment of the Consultation Paper. The SRS-CSPCP believes that it is important to clarify whether there are other demands on long-term sustainability reporting, e.g. on the part of the International Monetary Fund or the World Bank.

Detailed Comments

Preliminary View 1

- Recommendations on long-term sustainability reporting are welcomed in principle. However, this kind of reporting has nothing to do with accounting in the narrower sense and should not be governed in a mandatory Accounting Standard.
- It is absolutely essential to distinguish this kind of reporting (i.e. long-term sustainability reporting) from the Financial Statements /GPFS.

The SRS-CSPCP welcomes in principle recommendations by the IPSAS Board for long-term sustainability reporting. As this kind of reporting has nothing to do with accounting in the narrower sense, it should not be governed in a mandatory Accounting Standard. The SRS-CSPCP is of the opinion that long-term sustainability reporting should be clearly distinguished from the Financial Statements /GPFS. Long-term sustainability reporting may have political undertones and, in contrast to the budget and the annual accounts, does not have to be approved by the competent authority (i.e. legislature).

Preliminary View 2

- All three models would be conceivable. Therefore the third model (Cross references in GPFRs to other reports addressing long-term fiscal stability) should also be listed.
- However, a definitive comment is not possible, because the overall concept is not clear or is missing.

In principle for the SRS-CSPCP all three models would be conceivable. As long-term sustainability reports are not prepared annually, the third model (Cross references in GPFRs to other reports addressing long-term fiscal stability) should also be listed, which would also enable cross-referencing. This, subject to the cross-referencing being summarized and commented on, even if this is not quite so easy. Otherwise the effort for the addressee of the report is considered too great. But as the overall concept is not clear, a definitive comment is not possible. Information about the most important results of the long-term sustainability reporting would be quite conceivable and desirable in the financial commentary to the financial statements. Associated with this a political appraisal would also be desirable. But this information would not be audited.

Preliminary View 3

- Again it is absolutely essential to distinguish long-term sustainability reporting from the Financial Statements /GPFS.
- Reporting boundaries based on Government finance statistics and therefore possibly in deviation from those of the reporting entity seem to make more sense (Example Switzerland: Confederation, Cantons, Municipalities, Social Insurance Institutions), also for international comparison purposes.

The SRS-CSPCP is of the opinion that long-term sustainability reporting must be clearly distinguished from Financial Reporting/GPFS. The SRS-CSPCP believes it makes more sense to define the reporting boundaries for long-term sustainability reporting on the basis of those of the Government finance statistics and therefore in deviation from the reporting entity. As an example the Report on the Long-term Sustainability of Public Finances in Switzerland dated April 2008 covers, in addition to the Confederation, the cantons, municipalities and social insurance institutions. A report covering only the Confederation would not be very meaningful, because it would reflect only part of the public finances in Switzerland. For international comparison purposes, a state-wide view would be a worthwhile aim. A sub-national long-term sustainability report, where relevant, could be complementary.

Preliminary View 4

- Indicators and concepts should be applied on the basis of Government finance statistics, because they are already internationally defined.

For the SRS-CSPCP it would make more sense if the indicators and concepts are based on Government finance statistics. Such are already in use internationally and references could be made to them.

Preliminary View 5

- It is absolutely essential to distinguish it from the Financial Statements /GPFS.
- Long-term sustainability reporting is based on statistical and not accounting techniques.
- Therefore the possibility should be given to check the quality of the estimates from a scientific perspective.
- All information that is necessary to replicate the results -replicability principle- would have to be published in the long-term sustainability reporting. In this way a non-exhaustive list of issues can be waived.

The SRS-CSPCP is of the opinion that long-term sustainability reporting is to be clearly distinguished from Financial Statement/GPFS. Long-term sustainability reporting is based on statistical and not accounting techniques. Therefore the possibility should be given to check the quality of the estimates from a scientific perspective. By contrast the "truth and fairness" of Financial Statement are attested by the auditing techniques. Controlling the quality of a long-term sustainability report becomes possible only if all information is published that make it possible to replicate the results (replicability principle). For this reason, in the SRS-CSPCP's view, the focus should be placed on the replicability principle of the analyses and a non-exhaustive list of issues should be waived.

Preliminary View 6

- No comments.

The SRS-CSPCP has no special comments on this item.

Preliminary View 7

- No comments.

The SRS-CSPCP has no special comments on this item.

Chavannes-Lausanne, March 18, 2010

L.S.,

In the Netherlands, the CPB Netherlands Bureau for Economic Policy Analysis investigates at the start of each new period of government the sustainability of Dutch public finance (see e.g. <http://www.cpb.nl/eng/pub/cpbreeksen/bijzonder/25/bijz25.pdf>). Following a request from the Dutch public sector accountants, we will provide comments on the draft IPSAS-consultation paper on the Long-term fiscal sustainability of public finances.

A fundamental problem in the paper and proposals is that it seems to mix two approaches. IPSAS focuses on regular financial reporting by individual units with a, in general, backward-looking approach. Analysis of fiscal sustainability of public finance is mainly meaningful at the aggregate level of government and takes a forward-looking approach. Such analysis of fiscal sustainability is often also embedded in a more general economic analysis of a national economy, providing a forward-looking analysis also of other variables, like economic growth, inflation, interest rates, employment, purchasing power and distribution of income over generations. The latter type of analyses are generally conducted starting from a national accounts framework. The basic concepts of the national accounts framework (e.g. what is the government, what are revenue and expenditure, what are the assets and liabilities) are linked (and mostly identical) to those in the IMF Government Finance Statistics.

By mixing these two approaches (individual units and backward looking versus aggregate, macro-economic and forward looking), the paper underscores the major fundamental and practical differences. Like the guidelines on national accounts and government finance statistics, guidelines on aggregate government with a macro-economic and forward looking approach should best be issued by those actually conducting such analyses, like the IMF, EC and OECD. Guidelines focusing on reporting on individual units, like the ISPSAS, could refer to such guidelines and ideas, may explain similarities and differences, but should not suggest to provide an overall accounting framework. Like with the guidelines on national accounts and government finance statistics, harmonization between the different approaches is welcome when possible and meaningful.

In the current drafting, the paper creates confusion and does not provide the proper guidance:

- It should clarify that analysis of fiscal sustainability is mainly useful for aggregate government and that it generally is not useful for individual reporting units. It should also explain the reasons. In general, when one or more government units control or mainly finance other government units, analysis of fiscal sustainability of such individual units (whether being the net receiver or net payer) is not meaningful (and therefore also certainly not necessary!, cf preliminary view 1).
- It should clarify that for individual units (e.g. a social fund or a municipality) reporting on the long term prospects of specific types of expenditure can be very meaningful. However, when the expenditure of such units are mainly financed by another government unit, it is not very meaningful to add forecasts on such revenue in order to arrive at a complete picture of the unit's fiscal sustainability.

- It should clarify that for analysis of fiscal sustainability at an aggregate level consistency is very important. Without consistency about the past (e.g. about the value and time of recording of flows between government units) and about the future (e.g. about demography, macro-economic development, interest rates, etc), such analysis is not meaningful. As a consequence, simply adding up forward looking estimates of revenue and expenditure of individual reporting units is not meaningful.
- It should clarify the implications of the existence of standardized calculations of sustainable public finance for the aggregate government in EU-Member States. In our opinion, this implies that alternative estimates at the aggregate level are only useful for the public interest when they have a clear value added, e.g. are more up-to-date, more focused on the specific national situation and institutions, provide a more general economic perspective or shows the implications of some alternative assumptions. Preferably, such alternative estimates should also be accommodated by a brief discussion of the differences with these EU-wide estimates.
- It should clarify that including in the balance sheet also liabilities related to unfunded social benefits, while ignoring the net present value of future tax revenues can give a very misleading picture of the long term fiscal sustainability. Unfortunately, such a misleading picture is also provided by the new supplementary national accounts table that will book accrued-to-date-liabilities of all pension schemes. This misleading character was also expressed in official opinion by the EC-Ageing work group (AWG, Economic Policy Committee Working group on Ageing populations and sustainability, October 2008):

“It is important to note that the level of accrued-to-date liabilities or pension entitlements is not an indicator of sustainability nor in any way can be assimilated to public debt. Two examples can illustrate this point. A fully mature pay-as-you-go (PAYG) scheme with no demographic shock to come (no "papy-boom", no increase in life expectancy, no decrease in the fertility rates) may be fully sustainable i.e. can be maintained for ever without a need to change the parameters of the pension scheme. Yet this PAYG scheme will have large accrued-to-date liabilities, all the higher as the pension scheme is generous. By contrast, a country implementing a new PAYG today, may have little accrued-to-date liabilities the first years of its implementation as workers have still accumulated few rights. Yet, the pension scheme is unsustainable except if tax rates are immediately raised today to prefund the rapid increase in pension expenditure.

Against this background, it is the opinion of the AWG that it is not appropriate to refer to such definitions as providing support or additional information to be used in the assessment of the long- term sustainability of public finances. The compilation of accrued-to-date pension entitlements would not add value to the work of the AWG and it should be avoided that confusion is created between this concept and the AWG measure of the future cost of ageing and of sustainability of public finances.”

Best regards,

Frits Bos

7 April 2010

Ms Stephenie Fox
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Email: publicsectorpubs@ifac.org

Dear Stephenie

Consultation Paper: Reporting on the Long-Term Fiscal Sustainability of Public Finances

Thank you for the opportunity to comment on the International Public Sector Accounting Standards Board (IPSASB) Consultation Paper *Reporting on the Long-Term Fiscal Sustainability of Public Finances*.

CPA Australia, the Institute of Chartered Accountants in Australia (the Institute), and the National Institute of Accountants (the Joint Accounting Bodies) represent over 180,000 professional accountants in Australia. Our members work in diverse roles across public practice, commerce, industry, government and academia throughout Australia and internationally.

The Joint Accounting Bodies consider that a discussion of long-term fiscal sustainability issues and indicators as part of narrative reporting is necessary to meet the accountability and decision-making objectives of financial reporting. The Appendix to this letter contains our response to the Preliminary Views.

If you require further information on any of our views, please contact Mark Shying, CPA Australia via email at mark.shying@cpaaustralia.com.au, Kerry Hicks, the Institute via email at kerry.hicks@charteredaccountants.com.au or Tom Ravlic, the National Institute of Accountants via email at tom.ravlic@nia.org.au.

Yours sincerely



Alex Malley
Chief Executive Officer
CPA Australia Ltd



Graham Meyer
Chief Executive Officer
Institute of Chartered
Accountants in Australia



Andrew Conway
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Appendix

1. **The presentation of information on long-term fiscal sustainability is necessary to meet the objectives of financial reporting (accountability and decision-making) as proposed in the IPSASBs Consultation Paper, “Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities,” issued in September 2008 (Section Two).**

The Joint Accounting Bodies consider that the presentation of information on long-term fiscal sustainability is necessary to meet the objective of financial reporting.¹ This is consistent with our earlier submission to the International Public Sector Accounting Standards Board (IPSASB) Consultation Paper “Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities,” when we opined that the scope of financial reporting proposed by the IPSASB was apt in that it appropriately acknowledged the importance to the public sector of reporting non-financial information. We acknowledge that the scope of financial reporting will need to evolve in response to users’ information needs, consistent with the objectives of financial reporting and auditing. While we believe that the presented information would benefit from some form of assurance, we do not see this as a job for a financial reporting standard setter such as the IPSASB. Rather, we believe resolution of this issue sits best with governments.

2. **IPSASB guidance should recommend that long-term fiscal sustainability information in GPFRs be presented either through:**

- **[Model 1] Additional statements providing details of projections; or**
- **[Model 2] Summarized projections in narrative reporting (Section Three).**

The Joint Accounting Bodies believe that to assist in satisfying the objectives of reporting the IPSASB Guidance should provide the option to choose one of the two models above to present long-term financial sustainability information in the financial reports. The Consultation Paper examines a third model “Cross-references in GPFRs to other reports addressing long-term fiscal sustainability”. We agree with the IPSASB that use of the third model would not result in financial reports that are complete as the accountability and would not meet the comparability requirements that apply to financial reports.

3. **IPSASB guidance should be based on the concept of the reporting entity and should provide recommended practice for consolidated reports presented by all levels of government (Section Four).**

The Joint Accounting Bodies believe that the reporting boundary should be what is relevant to assessing long-term fiscal sustainability. In some jurisdictions, that reporting boundary would be consistent with a reporting boundary based on the control concept governing General Purpose Financial Statements (GPFS). In other jurisdictions, the reporting boundary relevant to assessing fiscal sustainability will be different. For example, we believe it is the Australian Government policies and actions to tax and allocate resources that are most relevant to Australia’s long-term fiscal sustainability and these are managed by the General Government Sector (GGS). Accordingly, we are of the view that a reporting boundary based on the GGS will sometimes be appropriate for assessing long-term fiscal sustainability and adjustment to a reporting boundary based on the control concept is not appropriate and should not be required. In other situations, when the boundary used to report the underlying fiscal sustainability information does not appropriately capture the policies and actions of government, we agree with the IPSASB that the reporting boundary should be adjusted to provide consistency with a reporting boundary based on the control concept governing GFS.

Our response to Question 7 below articulates our support of an upper limit of five years of the reporting date for the reporting of long-term fiscal sustainability information with the possibility of more frequent reporting depending on facts and circumstances. We consider it appropriate that whenever the long-term fiscal sustainability information is reported it be included in the GPFR of the reporting Government

¹ The objectives of financial reporting by public sector entities are to provide information about the reporting entity useful to users of General Purpose Financial Reports [GPFRs] for the purposes of accountability and making resource allocation, political and social decisions])

While we believe that the requirements should apply to each level of government (e.g., the national, state, and local governments), for reasons of understandability and cost: benefit we do not consider it appropriate that the requirement to report long-term fiscal sustainability information be pushed down to individual entities. Further, we consider that the time frame for "long term" might not be the same for each level of government.

4. **IPSASB guidance should recommend that long-term fiscal sustainability indicators be selected based on (a) their relevance to the entity, (b) the extent to which the indicators meet the qualitative characteristics of financial reporting, and (c) their ability to describe the scale of the fiscal challenge facing the entity. It should also recommend that comparative information is provided and that the reasons for ceasing to report indicators, if this occurs, are disclosed (Section Five).**

The Joint Accounting Bodies support basing the selection of indicators of long-term fiscal sustainability on the extent to which they meet the qualitative characteristics of financial reporting. We also support providing comparative information and the reasons for ceasing to report indicators, if this occurs.

5. **IPSASB guidance on long-term fiscal sustainability reporting in GPFs should recommend that the entity disclose:**
 - **Any deviations from the principle that long-term fiscal sustainability projections are based on current policy;**
 - **The basis on which projections of inflows from taxation and other material revenue sources have been made;**
 - **Any other key assumptions underpinning long-term fiscal sustainability projections; and**
 - **Details of key aspects of governing legislation and regulation, and the underlying macro-economic policy and fiscal framework (Section Six).**

The Joint Accounting Bodies support the recommendations of the IPSASB.

6. **IPSASB guidance on long-term fiscal sustainability reporting in GPFs should recommend that the entity disclose:**
 - **Time horizons for fiscal sustainability projections presented or discussed in the GPFs as well as the reason for modifying time horizons and any published plans to modify those horizons;**
 - **Discount rates, together with the reason for their selection;**
 - **Results of key sensitivity analyses; and**
 - **Steps taken to ensure that projections are reliable (Section Seven).**

The Joint Accounting Bodies agree with the IPSASB recommendations for disclosures. We strongly suggest that the final bullet point "Steps taken to ensure that projections are reliable" make it clear that the requirement is from a management point of view.

7. **IPSASB guidance on long-term fiscal sustainability reporting in GPFs should recommend that (a) the underlying projections should have been prepared or updated within five years of the reporting date, and (b) the date of preparation or update should be disclosed (Section Seven).**

The Joint Accounting Bodies agree with the IPSASB recommendation that the date of preparation or update be disclosed. While we support an upper limit of five years of the reporting date, we consider that facts and circumstances may require more frequent information on long-term fiscal sustainability to satisfy each of the qualitative characteristics of financial information, including relevance, materiality, and timeliness.



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Contact: B Richardson
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Our Reference:
Doc #:
Your Reference:

19 April 2010

Dear Ms Fox

IPSASB Consultation Paper
Reporting on the Long-Term Sustainability of Public Finances

New South Wales Treasury welcomes the opportunity to provide comments on the above Consultation Paper.

NSW Treasury supports the IPSASB project, although we do not believe it should be of high priority to the IPSASB because of other linked ongoing public sector projects; e.g. the Conceptual Framework project.

Moreover, there is considerable debate as to whether long-term sustainability information belongs within general purpose financial reports (GPFs). NSW Treasury believes this information should be presented outside GPFs.

Our detailed views in relation to the matters raised in the invitation to comment follow.

Yours sincerely

Robert Williams
for Secretary

New South Wales Treasury response to IPSASB Consultation Paper *Reporting on the Long-Term Sustainability of Public Finances*

General Comments

Although we support the project, NSW Treasury does not believe it should be given high priority by the IPSASB while there are other current projects we deem more important for the public sector; e.g. the Conceptual Framework project.

Moreover, there is considerable debate whether or not long-term sustainability information (LTFSI) should be included in general purpose financial reports (GPFRs). NSW Treasury believes this information does not fall within GPFRs. We provide further comments in this regard below.

Detailed Comments

- 1. The presentation of information on long-term fiscal sustainability (LTFSI) is necessary to meet the objectives of financial reporting (accountability and decision-making) as proposed in the IPSASB's Consultation Paper, "Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities," issued in September 2008 (Section Two).**

NSW Treasury believes the information is *useful*, but does not agree that it is *necessary* to meet financial reporting objectives. We disagree with the view in paragraph 3.2.3 that GPFRs are inadequate without LTFSI.

While the concept of what is included in GPFRs will evolve, it is not realistic or desirable for GPFRs to provide *all* information that is useful for accountability and decision making purposes.

General purpose financial statements (GPFSs) are historical in nature and focus primarily on past events. GPFRs support the information in the GPFSs and often include at least some prospective information, usually related to the near-term future.

LTFSI, on the other hand, is primarily economic, statistical and demographic data projected into the medium or long-term, sometimes up to 75 years in the future. NSW Treasury believes this information extends the GPFR information but is not necessary for GPFRs to be complete.

Moreover, NSW Treasury notes that IPSASB acknowledges in paragraph 2.3.1 that "there is still considerable debate on (a) the type and format of information that should be referred to as GPFRs, and GPFSs and (b) the demarcation lines between GPFSs, GPFRs and other information".

- 2. IPSASB guidance should recommend that long-term fiscal sustainability information in GPFs be presented either through:**
- **Additional statements providing details of projections; or**
 - **Summarized projections in narrative reporting (Section Three).**

NSW Treasury does not believe that LTFSI fits into GPFs. It is not a part of GPFs, nor is it ‘prospective financial material’ (‘Additional Information’ within GPFs in Exhibit Two on page 15), because LTFSI is much broader than ‘prospective financial material’.

NSW Treasury believes that LTFSI belongs in the ‘Other Information’ report category, outlined in the Consultation Paper Exhibit Two on page 15, as it provides economic, statistical and demographic data. The ‘Other Information’ category is not within GPFs. It is within the IPSASB overall ‘Information Useful as Input to Assessments of Accountability and for Resource Allocation and Other Decisions’ reporting framework. In this instance, Model Three, which has been rejected by the IPSASB, would be the best approach for disclosing this type of information. NSW Treasury recommends that LTFSI should be presented by cross-references in GPFs to other reports addressing LTFSI (Model Three in the Consultation Paper).

- 3. IPSASB guidance should be based on the concept of the reporting entity and should provide recommended practice for consolidated reports presented by all levels of government (Section Four).**

NSW Treasury agrees that the guidance should be based on the reporting entity concept and should provide guidance for consolidated reports presented by all levels of government.

We see no reason to limit the guidance to national governments. Moreover, we understand that fiscal sustainability reporting already exists at sub-national levels.

As to whether the reports should be consolidated financial reports or financial reports of individual entities, NSW Treasury agrees with paragraph 4.4.2 of the Consultation Paper that:

“In general, it seems questionable whether the cost of producing reportsby individual entities within the economic entity, is likely to justify the benefits to users....”

- 4. IPSASB guidance should recommend that long-term fiscal sustainability indicators be selected based on (a) their relevance to the entity, (b) the extent to which the indicators meet the qualitative characteristics of financial reporting, and (c) their ability to describe the scale of the fiscal challenge facing the entity. It should also recommend that comparative information is provided and that the reasons for ceasing to report indicators, if this occurs, are disclosed (Section Five).**

NSW Treasury agrees with IPSASB that general principles (points (a) to (c) above) rather than a uniform set of indicators should be recommended. We also agree that comparatives and reasons for ceasing to report indicators should be provided.

5. **IPSASB guidance on long-term fiscal sustainability reporting in GPFRs should recommend that the entity disclose:**
- **Any deviations from the principle that long-term fiscal sustainability projections are based on current policy;**
 - **The basis on which projections of inflows from taxation and other material revenue sources have been made;**
 - **Any other key assumptions underpinning long-term fiscal sustainability projections; and**
 - **Details of key aspects of governing legislation and regulation, and the underlying macro-economic policy and fiscal framework (Section Six).**

NSW Treasury agrees.

6. **IPSASB guidance on long-term fiscal sustainability reporting in GPFRs should recommend that the entity disclose:**
- **Time horizons for fiscal sustainability projections presented or discussed in the GPFRs as well as the reason for modifying time horizons and any published plans to modify those horizons;**
 - **Discount rates, together with the reason for their selection;**
 - **Results of key sensitivity analyses; and**
 - **Steps taken to ensure that projections are reliable (Section Seven).**

NSW Treasury agrees. We also believe that information on discount rates should disclose the methods of discounting used.

7. **IPSASB guidance on long-term fiscal sustainability reporting in GPFRs should recommend that (a) the underlying projections should have been prepared or updated within five years of the reporting date, and (b) the date of preparation or update should be disclosed (Section Seven).**

NSW Treasury agrees with paragraph 7.6.3 of the Consultation Paper that there are risks to the relevance of LTFSI if it has not been prepared and updated within five years of the reporting date. We also agree with disclosing the date of preparation or update.

Department of Treasury and Finance

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Ms Stephenie Fox
Technical Director
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Dear Ms Fox

COMMENTS ON IPSASB CONSULTATION PAPER *REPORTING ON THE LONG-TERM SUSTAINABILITY OF PUBLIC FINANCES*

The Heads of Treasuries Accounting and Reporting Advisory Committee welcomes the opportunity to provide comments to the International Public Sector Accounting Standards Board on the Consultation Paper *Reporting on the Long-Term Sustainability of Public Finances*.

HoTARAC is an intergovernmental Committee that advises Australian Heads of Treasuries on accounting and reporting issues. HoTARAC is comprised of the senior accounting policy representatives from all Australian States, Territories and the Australian Government.

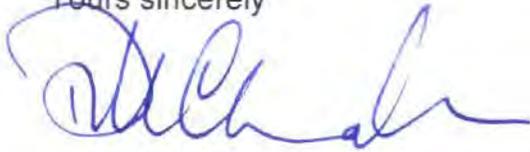
HoTARAC strongly supports the *Reporting on the Long-Term Sustainability of Public Finances* Project. Detailed comments are provided in Attachment 1.

In summary, HoTARAC:

- agrees that the aim of reporting on the long-term sustainability of public finances should be to fulfil decision-making and accountability purposes;
- recommends greater clarification on the distinction between General Purpose Financial Reports, General Purpose Financial Statements and Other Information reports;
- believes that the reporting entity should be the General Government Sector;
- supports the extension of IPSASB guidance to all levels of government on the basis that the IPSASB guidance remains flexible and based on high level principles;
- reiterates that it does not believe that long-term fiscal sustainability information should be presented as part of annual reports. HoTARAC is concerned that this would require long-term sustainability reports to be prepared every year and be subject to audit; and
- agrees that the long-term sustainability report would benefit from some degree of assurance, but not to an audit level, given the prospective characteristic of the information.

If you have any queries regarding HoTARAC's comments, please contact Peter Gibson from the Australian Department of Finance and Deregulation on +61 2 6215 3551.

Yours sincerely



D W Challen

CHAIR

HEADS OF TREASURIES ACCOUNTING AND REPORTING ADVISORY COMMITTEE

9 April 2010

Encl

HoTARAC response to IPSASB Consultation Paper Reporting on the Long-Term Sustainability of Public Finances

HoTARAC strongly supports the Project on Reporting on the Long-Term Sustainability of Public Finances. In its view, such a report is a valuable tool for accountability and decision-making purposes for government. This reporting is potentially much more relevant to users, compared to General Purpose Financial Statements that focus more on historical information.

HoTARAC supports a principles-based approach. This allows for such a Report to be adapted to the circumstances of each country, increasing the relevance of the information provided. As Long-Term Sustainability of Public Finances Reports are relatively new, even for countries that do currently prepare them, flexibility allows for development and adaptation based on experience. Presently, there is not a great deal of international comparison between reports – but where this does or will happen, either the requirements can evolve and/or additional specific requirements can be overlaid.

- 1. The presentation of information on long-term fiscal sustainability is necessary to meet the objectives of financial reporting (accountability and decision-making) as proposed in the IPSASB's Consultation Paper, "Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities," issued in September 2008 (Section Two).**

HoTARAC agrees. Financial statements only concern the past and current accountability of an entity. HoTARAC considers that accountability should also extend to sustainability in the future. A long-term fiscal sustainability report provides accountability to the public and relevant information for government to make decisions. In particular, such a report may include information on the timing and extent of shortfalls.

- 2. IPSASB guidance should recommend that long-term fiscal sustainability information in GPFs be presented either through:**
 - Additional statements providing details of projections; or**
 - Summarised projections in narrative reporting (Section Three).**

HoTARAC disagrees. The formats proposed (Models One and Two) seem to apply to a General Purpose Financial Report that contains GPFs and not to a separate report as mentioned in Paragraph 2.3.3.

HoTARAC is unsure if it is possible to prepare a report in summary narrative form and still include all the other information necessary to be consistent with the IPSASB's proposals, for example, inclusion of assumptions.

HoTARAC's majority view is that Long-Term Sustainability of Public Finances Reports belongs to the Other Information report category, outlined in the Consultation Paper Exhibit Two on Page 15, as they provide economic, statistical and demographic data. The Other Information category is not within

the All Financial Reporting classification. However, it is still classified within the IPSASB's overall reporting framework under Information Useful as Input to Assessments of Accountability and for Resource Allocation and Other Decisions. In this instance, Model Three, which has been rejected by the IPSASB, would be the best approach of disclosing this type of information. HoTARAC recommends that Model Three be included as an option.

In HoTARAC's experience providing financial information in the same report on different bases tends to confuse rather than assist financial report users. Therefore a Long-Term Sustainability of Public Finances Reports would be better issued as a separate report, rather than being included in a GPFR containing GPFs. Alternatively, where GPFs and comprehensive forward looking information are provided in the same report, preparers should take great care in providing sufficient information to the report users to clearly outline the different bases applied in the report.

The Australian Government's Long-Term Sustainability of Public Finances Report, the Intergenerational Report, appears to fit in with the Model Two approach, summarising projections in a narrative report. However, the information on long-term fiscal sustainability is not derived from other reports (refer Paragraph 3.1.7), it is the primary report. Given that it is a separate report from GPFRs containing GPFs, the Intergenerational Report is more aligned to the Model Three approach, other information category type of report.

Notwithstanding the above, one jurisdiction believes it is possible that long-term fiscal sustainability reports are GPFRs within the broader IPSASB definition in its *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*¹.

In particular, when one considers the comment that "there is no current expectation that broader information within the scope of GPFRs will be published in a single report that also includes GPFs. Such information may be published in a number of separate reports", (refer Paragraph 2.3.3).

HoTARAC disagrees with the view in Paragraph 3.2.3 that GPFRs are inadequate without long-term fiscal sustainability information. Each GPFR may have a different focus and/or may satisfy different user's needs regarding financial information.

HoTARAC provides no view about whether Long-Term Sustainability of Public Finances Reports should be GPFRs. However, given the discussion above and the acknowledgement by IPSASB in Paragraph 2.3.1 that "there is still considerable debate on (a) the type and format of information that should be referred to as GPFRs, and GPFs and (b) the demarcation lines between

¹ The IPSASB GPFR definition is broadened so as to allow for the inclusion of additional information such as non-financial, prospective financial, compliance and/or additional explanatory material. This differs from the Australian Accounting Standards Board (AASB)'s definition in that, while the AASB does not preclude this information from being disclosed, it is not considered to be part of GPFRs. As long-term sustainability reports are prospective material, under the IPSASB definition they would be part of GPFRs.

GPFSs, GPFRs and other information”, there is a need for IPSASB to more clearly distinguish between these different types of reports. Further, the IPSASB should clarify which information category Long-Term Sustainability of Public Finances Reports would belong to in terms of the categories illustrated in Exhibit 2 of the Consultation Paper. The types of presentation are described in very general terms and could benefit from some additional definition.

3. IPSASB guidance should be based on the concept of the reporting entity and should provide recommended practice for consolidated reports presented by all levels of government (Section Four).

HoTARAC disagrees with the application of the consolidated reporting entity. IPSASB’s definition of the Reporting Entity concept aligns with the Australian Accounting Standards Board Reporting Entity concept. However, at least in the Australian context, under the Government Finance Statistics framework, it is the General Government Sector that collects the majority of taxes and is responsible for delivering government services and incurring any debt necessary to finance this service delivery. Information on those activities is critical for assessing long term sustainability of public sector finances. The Australian Intergenerational Report focuses on the GGS, which includes any significant financial transactions with other sectors.

However, a minority of HoTARAC members support the view that the guidance should be based on the reporting entity concept for general purpose financial statements, which would equate to the whole-of-government reporting entity rather than the GGS.

HoTARAC agrees with the proposal to extend IPSASB guidance to all levels of government. The majority of HoTARAC supports the extension of the IPSASB guidance for the preparation of fiscal sustainability reports to the state/local government levels, given the following IPSASB principles:

- that projections be based on current policy (e.g. current Australian Government revenue sharing methodologies), unless there is disclosure of any deviations from current policy;
- disclosure of the bases on which revenue sources have been projected; and
- disclosure of any other key assumptions underpinning projections.

There is evidence that, in Australia, Local Government revenue is mainly derived from rates, which would be considered to be independent and controllable.

A minority view of HoTARAC is that it is inappropriate to prepare long-term sustainability reports in the proposed format at all levels of government and recommends that the report be prepared at national level or by governments with a majority of revenue being independent and controllable, for example a government that can levy its own income taxes. In Australia, only the Australian Government has the power to raise income tax, not the States. Entities within the sub-national level rely mainly on allocations from the Australian Government Budget to fund their projects and operations. Some

Australian sub-national level governments prepare reports that are more akin to mid-term budget forecasts (e.g. with a time horizon of around 10 years) than Long-Term Sustainability of Public Finances Reports. The IPSASB Consultation Paper provides examples of Long-Term Fiscal Sustainability Reports (refer Exhibit Ten, page 43) with the majority having time horizons ranging from 25 to 75 years, reflecting fiscal sustainability over one or several generations. However, the IPSASB's proposed definition of Long-Term Sustainability does not cover the issue of time horizon. Is it IPSASB's intention that its guidance would cover mid-term estimates reports as well as intergenerational projections reports?

- 4. IPSASB guidance should recommend that long-term fiscal sustainability indicators be selected based on (a) their relevance to the entity, (b) the extent to which the indicators meet the qualitative characteristics of financial reporting, and (c) their ability to describe the scale of the fiscal challenge facing the entity. It should also recommend that comparative information is provided and that the reasons for ceasing to report indicators, if this occurs, are disclosed (Section Five).**

HoTARAC agrees that the criteria set out above assist preparers in determining the appropriate indicators for long-term fiscal sustainability. If the indicators were to be prescriptive, then some of the indicators may lose their relevance to particular jurisdictions. In HoTARAC's opinion, the relevance of the indicator is important as different jurisdictions may have different circumstances that need to be considered. Indicators may not always be a purely quantitative measure as qualitative characteristics may be more useful at times.

HoTARAC recommends that the IPSASB principles include the selection of fiscal sustainability indicators that ensure a balanced picture is published about the government's future fiscal position. This would allow both favourable and unfavourable projections to be reported.

Disclosing comparative information and reasons for ceasing to report indicators will enhance the comparability and reliability of the report. The Australian Intergenerational Report includes comparisons with the previous Intergenerational Reports.

Note that the format of comparative information may depend on the presentation format adopted as, unlike GPFs, the format for this reporting may not take the form of a standard set of financial statements where a second column can be presented for comparative figures.

5. **IPSASB guidance on long-term fiscal sustainability reporting in GPFs should recommend that the entity disclose:**
- **Any deviations from the principle that long-term fiscal sustainability projections are based on current policy;**
 - **The basis on which projections of inflows from taxation and other material revenue sources have been made;**
 - **Any other key assumptions underpinning long-term fiscal sustainability projections; and**
 - **Details of key aspects of governing legislation and regulation, and the underlying macro-economic policy and fiscal framework (Section Six).**

HoTARAC agrees and is of the view that deviation from the principle that long-term fiscal sustainability projections are based on current policy should be disclosed to ensure that the comparability of the report is maintained between reports and between other government reports and for transparency. The disclosure of key assumptions and background information on legislation and regulations enhances the comparability and understandability of the report between governments.

6. **IPSASB guidance on long-term fiscal sustainability reporting in GPFs should recommend that the entity disclose:**
- **Time horizons for fiscal sustainability projections presented or discussed in the GPFs as well as the reason for modifying time horizons and any published plans to modify those horizons;**
 - **Discount rates, together with the reason for their selection;**
 - **Results of key sensitivity analyses; and**
 - **Steps taken to ensure that projections are reliable (Section Seven).**

HoTARAC agrees. HoTARAC considers that the disclosure of time horizons is essential to enable the information to be put into perspective and to ensure that the timeframe is long enough to provide useful information for policy decisions and analysis. The Australian Intergenerational Report covers a 40 year period.

Discount rates and the reasons for their selection should be disclosed, where applicable. In addition to the discount rates, information about the methods of discounting should be disclosed. Some Long-Term Sustainability of Public Finances Reports provide information that does not discount future cash flows to a current value number, in which case discount rates are irrelevant. Therefore, disclosure of discount rates should only be recommended where these are used in preparing the report. A single value number may not be adequate for assessing future financial sustainability because it does not identify the timings of the flows. The Australian Intergenerational Report uses a year by year analysis of current receipts with current payments. This removes the subjectivity of selecting a discount rate.

The disclosure of any key sensitivity analysis and assurance undertaken are important when dealing with long-term projections as it gives users increased confidence in the material and a greater understanding of the circumstances. However, HoTARAC's view is that guidance in this area should be focussed on the promotion of transparency about assumptions rather than merely recommending disclosure of assumptions.

7. IPSASB guidance on long-term fiscal sustainability reporting in GPFRs should recommend that (a) the underlying projections should have been prepared or updated within five years of the reporting date, and (b) the date of preparation or update should be disclosed (Section Seven).

- a) HoTARAC agrees and is of the view that five years is a reasonable timeframe to prepare or update the underlying projections. However, guidance on the frequency of preparing and updating underlying projections should remain flexible. Different jurisdictions have different circumstances which cannot be addressed by a single set of rules.

Guidance is needed about how to deal with publication of this information between updates. If a government chooses to present this information in an annual report, should the same information be repeated in each annual report for those intervening years when the information is not actually updated?

- b) HoTARAC agrees that the date of preparation or update is useful information for the reports readers and should be disclosed.

Other Comments

Consequences of including the Long-Term Sustainability of Public Finances Reports in an annual report

In the instance that IPSASB's guidance focuses on projections over a time horizon equal to or greater than 25 years, it is HoTARAC's opinion that it would appear inappropriate to prepare such reports on an annual basis, which may be a consequence of the requirement to provide such information in a GPFR containing GPFSSs. It is unlikely that long term projections would change significantly, due to their extended time horizon, unless unpredicted major events occur. The complexity of modelling projections over such a long period also requires significant time to prepare and validate. The Australian Intergenerational Report is issued every three to five years.

If Long-Term Sustainability of Public Finances Reports were included in the report containing GPFSSs, such information would result in it being reviewed as part of the financial statement audit process as required by Auditing Standards. HoTARAC is of the view that, while Long-Term Sustainability of Public Finances Reports would benefit from a level of assurance to enhance credibility, unlike the extensive set of standards that govern the preparation of information that is included in GPFSSs, this is not the case for long-term fiscal sustainability information, which would make an audit of that information substantially more challenging.

Consequences of a wider GPFR definition in the IPSASB Conceptual Framework

Although Long-Term Sustainability of Public Finances Reports may be GPFRs, within the definition proposed in the IPSASB Conceptual Framework, HoTARAC provides no view on whether they should be GPFRs. IPSASB may need to consider the consequences of having in their framework GPFRs, which have a broader scope to GPFs. GPFRs are largely definitional at one level; however at another level the presumption is that as GPFRs, the full conceptual framework would apply unaltered to Long-Term Sustainability of Public Finances Reports and the IPSASB may need to consider whether this is what is intended or whether this is appropriate.



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21 April 2010

Dear Stephenie

CONSULTATION PAPER ON REPORTING ON THE LONG-TERM SUSTAINABILITY OF PUBLIC FINANCES

The Public Sector Committee of The Institute of Chartered Accountants of Scotland (ICAS) welcomes the opportunity to comment on IPSASB's consultation paper "Reporting on the Long-term Sustainability of Public Finances". The Public Sector Committee is a broad based committee of ICAS members with representation across the public services.

The Institute's Charter requires its Committees to act primarily in the public interest, and our responses to consultations are therefore intended to place the general public interest first. Our Charter also requires us to represent our members' views and protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount.

Overall comments

The ability of governments to report to the public on the long-term fiscal sustainability of public finances in a clear and consistent manner is a major challenge. The development of a suitable reporting framework would facilitate greater accountability and could encourage governments to consider more rigorously the impact of policies over a greater time horizon. However, developing a credible framework is a significant challenge for IPSASB and we have concerns as to whether the General Purpose Finance Report (GPFR) is the most appropriate medium for public sector reporting on fiscal sustainability. Therefore, we have significant concerns about the consultation paper's proposals for introducing long-term fiscal sustainability reporting into the GPFRs of public sector entities.

We believe that long-term fiscal sustainability reporting should be undertaken separately from financial reporting and that long-term fiscal sustainability reporting at whole of government level, only, is likely to be meaningful. Our key concern is the combining of an accounting framework which uses historic financial information with a statistical based framework which uses prospective financial information.

We believe that the stewardship aspect of accountability is the most important financial reporting objective for the public sector, which we see as being incompatible with a framework which uses prospective financial information. We also have concerns about the inclusion of material on long-term fiscal sustainability within the other information which is published with General Purpose Financial Statements (GPFs), on the grounds that management commentaries are becoming overburdened with too much information which detracts from the management's story about how an entity has performed over the financial year.

Central governments are responsible for setting fiscal policy and policies on how public services are funded. As public sector entities, including sub-national government entities, may have no or incomplete control over these matters, it is difficult to envisage how it will be possible for public sector entities to provide meaningful information on the long-term fiscal sustainability of the services they provide.

Any guidance on reporting on long-term fiscal sustainability will need to clearly distinguish between the material which is to be included within GPFs and that to be included within the other information published with GPFs; it does not do so at the moment. However, the consultation paper does discuss the extension of recognition and measurement criteria to include prospective financial information (exhibit 4) and discusses the inclusion of additional statements (preliminary view 2). These developments could impact on the Conceptual Framework, being developed by IPSASB, and on whether GPFs give "a true and fair view" or "present fairly...."

We disagree with IPSASB's statement in paragraph 7.5.4 that the "need for, level of and extent of assurance [on prospective financial information] is a matter for preparers to form a judgement on in conjunction with their auditors". Where developments impact on GPFs, the level of assurance needed will not be a matter for the preparers and the auditors as the prospective financial information would form part of the accounting framework.

It is also incumbent on standard setters to undertake a regulatory impact assessment of new standards and to draw conclusions as to whether the benefits of applying a new standard outweigh the costs. If a standard setter does not make this judgement and sets standards which are overly burdensome it could undermine the accounting framework they have established.

Please do not hesitate to contact me if you would like to discuss our response further.

Our comments on IPSASB's preliminary views are set out in the Appendix.

Yours sincerely



CHRISTINE SCOTT
Assistant Director, Charities and Public Sector

APPENDIX

Preliminary view 1

The presentation of information on long-term fiscal sustainability is necessary to meet the objectives of financial reporting (accountability and decision-making) as proposed in IPSASB's consultation paper, "Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities", issued in September 2008. (Section two)

Comments

We do not agree that the presentation of information on long-term fiscal sustainability is necessary to meet the financial reporting objectives of accountability and decision-making.

In our response to the consultation paper "Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities" (dated 31 March 2009), we stated that we believe that the following should be excluded from the scope of general purpose financial reporting:

- "prospective financial information and other information about the reporting entity's future service delivery activities and objectives and the resources necessary to support those activities."

This is on the basis that we do not agree that the scope of financial reporting should expand beyond historic financial information, other than information necessary to comply with IPSAS 14 "Events after the Reporting Date".

We also believe that the financial statements and other information contained in the GPFs of public sector entities should give accountability more weight than decision-usefulness and that this should be reflected in IPSASB's Conceptual Framework.

Section two of the consultation paper illustrates the information needs of users using set theory. The focus of this consultation is the GPF, of which GPFs are a sub-set. However, paragraph 2.3.1 of the consultation paper states that:

- "There is still considerable debate on (a) the type and format of information that should be referred to as GPFs and GPFs and (b) the demarcation lines between GPFs, GPFs and other information."

This is very much at the heart of this and related consultations and confirmation of IPSASB's views on changes to the scope of the GPFs and to the other information contained in the GPF is vital if commentators are to express their views clearly, with minimal risk of misinterpretation.

This distinction is essential for both the public sector entities and their auditors so that they understand and can comply with their respective responsibilities towards the GPFs and other information published with them.

We have concerns about exhibit four (following paragraph 2.5.1) which extends the recognition and measurement criteria of assets and liabilities to include the transfer of future economic resources. We believe that this approach distorts the statement of financial position and the statement of financial performance in a manner which would be counter to the stewardship objective.

Preliminary view 2

IPSASB guidance should recommend that long-term fiscal sustainability information in GPFRs be presented either through:

- *Additional statements providing details of projections; or*
- *Summarised projections in narrative reporting. (Section 3)*

Comments

We do not believe that additional statements providing details of projections should be included within the GPFSs of public sector entities or within other information contained in GPFRs.

Public sector entities are expected to apply the going concern concept to the preparation of GPFSs and GPFRs, prepared in accordance with generally accepted accounting practice, are required to give “a true and fair view” or “present fairly” the financial position and financial performance, etc of the entity. Providing additional statements which include prospective financial information would require consideration of how these two cornerstones of financial reporting are affected.

Central governments are responsible for setting fiscal policy and policies on how public services are funded. As public sector entities, including sub-national government entities, may have no or incomplete control over these matters, it is difficult to envisage how it will be possible for public sector entities to provide meaningful information on the long-term fiscal sustainability of the services they provide even if it is assumed that policies on service delivery remain unchanged for the purposes of sustainability reporting.

Preliminary view 3

IPSASB guidance should be based in the concept of the reporting entity and should provide recommended practice for consolidated reports presented by all levels of government. (Section 4)

Comments

In our comments on preliminary view 2, we set out the reasons why we do not believe it is possible for individual public sector entities to report on fiscal sustainability and our comments apply equally to the concept of the reporting entities generally.

However, we would welcome the preparation of whole of government accounts by national governments and believe that it would be desirable for GPFRs prepared at whole of government level to be accompanied by narrative which explains what the figures say about the state of the public finances and how successful the government has been in working towards or achieving its policy commitments.

ICAS has developed a policy on how we believe the UK Government could improve its accountability through the preparation of whole of government accounts with accompanying narrative commentary. This includes recommendations on developing both short and long term outcome objectives against which progress can be reported on an annual basis. Our policy would appear relevant in other jurisdictions.

The policy position is set out in our pre-UK general election briefing 'Beyond the Numbers' and the key points we raise in relation to accountability are as follows:

- We believe that the Government should produce narrative commentary to accompany UK whole of government accounts in the style of a Business Review, as is required from large UK companies. The Business Review should clearly explain what the figures say about the state of the public finances and how existing commitments are to be met. This approach would provide an opportunity for Government to report on both its achievements and shortcomings against short and long term outcome objectives.
- The current reporting framework is weak in relation to longer term issues where timescales extend beyond Government terms of office. Developing both short and long term outcome objectives for reporting in the Business Review provides an opportunity to improve accountability by setting out intentions in advance and by making a commitment to report back on actual performance. Performance reporting should focus on achievement against short term objectives and on progress against longer term objectives.

The full version of 'Beyond the Numbers' is available on the ICAS website at:

www.icas.org.uk/beyondthenumbers

Preliminary view 4

IPSASB guidance should recommend that long-term fiscal sustainability indicators be selected based on a) their relevance to the entity, b) the extent to which the indicators meet the qualitative characteristics of financial reporting, and c) their ability to describe the scale of the fiscal challenge facing the entity. It should also recommend that comparative information is provided and that the reasons for ceasing to report indicators, if this occurs, are disclosed. (Section 5)

Comments

We do not believe that fiscal sustainability reporting is feasible below whole of government level and we set out our views on whole of government accounts and accompanying narrative information in our response to preliminary view 3.

We are not against the publication of information on long-term fiscal sustainability separate from whole of government accounts. However, prospective financial information of this nature does not fit well with information prepared to comply with accounting frameworks and we consider that such information should be made available in a separate document.

Preliminary view 5

IPSASB guidance on long-term fiscal sustainability reporting in GPFs should recommend that the entity disclose:

- *Any deviations from the principle that long-term fiscal sustainability projections are based on current policy;*
- *The basis on which projections of inflows from taxation and other material revenue sources are made;*
- *Any other key assumptions underpinning long-term fiscal sustainability projections; and*
- *Details of key aspects of the governing legislation and regulation, and the underlying macro-economic policy and fiscal framework. (Section 6)*

Comments

We agree that guidance on long-term fiscal sustainability should include the information mentioned, although we do not believe it would be appropriate for such information to be based on anything other than current policy. Also, we do not agree that information on long-term fiscal sustainability as set out in the consultation paper should be included in GPFRs.

Preliminary view 6

IPSASB guidance in long-term fiscal sustainability reporting in GPFRs should recommend that the entity disclose:

- *Time horizons for fiscal sustainability projections presented or discussed in the GPFRs as well as the reason for modifying time horizons and any published plans to modify those horizons;*
- *Discount rates, together with the reason of their selection;*
- *Results of key sensitivity analyses; and*
- *Steps taken to ensure that projections are reliable.*

Comments

We agree that entities should report key underlying assumptions when presenting information on long-term fiscal sustainability. However, we believe that information on long-term fiscal sustainability as set out in the consultation paper should not be included in GPFRs.

Preliminary view 7

IPSASB guidance on the long-term fiscal sustainability reporting in GPFRs should recommend that a) the underlying projections should have been prepared or updated within five years of the reporting date, and b) the date of preparation or update should be disclosed.

Comments

We believe that it would make sense for reports in long-term fiscal sustainability to be updated annually and for the reporting date to be the final date of the financial year just past. (Section 7)



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22 April 2010

Ref.: PSC/HvD/SS/SR

Dear Ms Fox,

Re: IPSASB Consultation Paper Reporting on the Long-Term Sustainability of Public Finances

- (1) FEE (the Federation of European Accountants) is pleased to submit its views on this Consultation Paper.
- (2) We strongly support IPSASB's development of high quality standards for public sector financial reporting, whether through the Board's recent project to develop IFRS converged IPSASs or through wholly public sector specific IPSASs.
- (3) FEE has already provided comments on IPSASB's March 2008 consultation on a proposed project brief on Long-Term Fiscal Sustainability, noting that:
 - Developing this kind of information would inevitably range more widely than current financial reporting, particularly that which is within the main financial statements;
 - Appropriate reporting might need to reflect quite specific aspects of benefit programs, the specifics of taxation systems, and the nature of the dialogue between government and citizens;
 - Audit and verifiability considerations for this type of information might be expected to be rather different to standard assurances on financial statements.



- (4) We also indicated that the Board has set itself a very ambitious task. While we understand that some jurisdictions have already made progress in developing fiscal sustainability reporting, it remains to be seen whether standards or other internationally applicable guidance can be developed. The combination of estimation uncertainty with political and policy assumptions raises issues in connection with avoiding bias, and avoiding or managing the risks of an increase in the politicisation of financial reporting generally. The interaction and read across between long-term sustainability reporting and statistical national accounts also needs to be considered.

General comments

- (5) Overall we consider that the Consultation Paper has mapped out a practical basis on which to develop guidance. We wish to make some observations in relation to the nature of the guidance.
- (6) We believe the final guidance should mandate the reporting on long-term sustainability in that each entity concerned is obliged to report on long-term sustainability. However the way and contents of the reporting should at least at this early stage of reporting on long-term sustainability not be required. We welcome that the IPSASB sets the principles for such reporting as set out in the preliminary view paragraph 4 but the guidance on what and how to report should not be mandatory at this stage in our view.
- (7) Our only other general comment is to note that the examples of long-term fiscal sustainability reporting from different jurisdictions serve different purposes, and have a variety of different approaches to time horizon, as discussed in sections 6 and 7. The emphasis is not on predicting the future, but on providing a view of the future consequences of past actions and existing policy commitments, taking a wider view of commitments than normally recognised in financial statements. The time horizons seem to be principally chosen to avoid missing important future consequences. This is rather a specialised view of 'long term' reporting and in moving forward to an exposure draft it would be helpful if there were more clarity and explanation on this to help readers understand the nature, purpose and limitations of this reporting as well as the envisaged frequency of reporting.

Specific comments on the Preliminary Views

Preliminary View 1

The presentation of information on long-term fiscal sustainability is necessary to meet the objectives of financial reporting (accountability and decision-making) as proposed in the IPSASB Consultation Paper, "Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities," issued in September 2008

- (8) FEE agrees with what we believe to be the intention of the above statement, but we are not sure that we agree with all of the implications of the Preliminary View as drafted.



- (9) FEE agrees that an awareness of fiscal sustainability issues is important context which is needed to gain a full understanding of the financial statements and other financial reporting. Its relevance is clear, particularly at whole of government level and at other levels of government which have the capacity to levy taxes and to set tax rates with a view to funding future expenditures.
- (10) We support the requirement that this type of information should be provided. We stress that including this information in financial reporting is clearly beneficial and extremely desirable. However at this stage the contents and way of reporting should not be mandatory although it could be encouraged by the non-mandatory guidance. We also believe that this information might be particularly beneficial in circumstances such as the current global financial crisis.

Preliminary View 2

IPSASB guidance should recommend that long-term fiscal sustainability information in GPFs be presented either through:

- *Additional statements providing details of projections; or*
- *Summarized projections in narrative reporting*

- (11) We agree that Reporting Models One and Two as outlined above are sensible starting points for presenting fiscal sustainability information in General Purpose Financial Reporting. While in practice some jurisdictions are likely to continue to prepare separate long-term fiscal sustainability reports, and cross-references and summarised information relating to those reports might often be helpful to readers of GPFs, we would see practical problems in developing guidance based on Model Three, which would be dependent on material not prepared in line with IPSASB guidance, and which might not always be sufficiently aligned with the information in the GPFs.
- (12) Furthermore, we suggest that in moving forward the Board should consider developing a preferred model based which could include minimum requirements for disclosure in financial statements, quantitative information in narrative reporting, and descriptive/explanatory information in narrative reporting. While we accept and support the need for flexibility, having a preferred model would provide a useful template and assist comparability of reporting.

Preliminary View 3

IPSASB guidance should be based on the concept of the reporting entity and should provide recommended practice for consolidated reports presented by all levels of government

- (13) FEE agrees that IPSASB guidance should be based on the concept of the reporting entity.



- (14) We agree that fiscal sustainability issues can arise at all levels, although we are not sure that it will always add value to report in situations where one tier of government is substantially financed by a higher tier. We agree that the principal focus should be on consolidated reports, rather than for individual entities which may, for example, have no powers to raise or set taxes.

Preliminary View 4

IPSASB guidance should recommend that long-term fiscal sustainability indicators be selected based on

- (a) their relevance to the entity,*
- (b) the extent to which the indicators meet the qualitative characteristics of financial reporting, and*
- (c) their ability to describe the scale of the fiscal challenge facing the entity. It should also recommend that comparative information is provided and that the reasons for ceasing to report indicators, if this occurs, are disclosed*

- (15) FEE agrees with these criteria for the selection of indicators by public sector entities which are reporting on long-term fiscal sustainability under IPSASB recommended guidance.

Preliminary View 5

IPSASB guidance on long-term fiscal sustainability reporting in GPFs should recommend that the entity disclose:

- Any deviations from the principle that long-term fiscal sustainability projections are based on current policy;*
- The basis on which projections of inflows from taxation and other material revenue sources have been made;*
- Any other key assumptions underpinning long-term fiscal sustainability projections; and*
- Details of key aspects of governing legislation and regulation, and the underlying macro-economic policy and fiscal framework*

- (16) FEE agrees with the disclosure of the above contextual information by public sector entities which are reporting on long-term fiscal sustainability under IPSASB recommended guidance.

Preliminary View 6

IPSASB guidance on long-term fiscal sustainability reporting in GPFs should recommend that the entity disclose:

- Time horizons for fiscal sustainability projections presented or discussed in the GPFs as well as the reason for modifying time horizons and any published plans to modify those horizons;*
 - Discount rates, together with the reason for their selection;*
 - Results of key sensitivity analyses; and*
- Steps taken to ensure that projections are reliable*



- (17) FEE agrees that it is important that the above information on time horizons and related modelling parameters is disclosed by entities reporting on long-term fiscal sustainability under IPSASB recommended guidance.

Preliminary View 7

IPSASB guidance on long-term fiscal sustainability reporting in GPFs should recommend that

- (a) the underlying projections should have been prepared or updated within five years of the reporting date, and*
- (b) the date of preparation or update should be disclosed*

- (18) FEE agrees with the disclosure of the above information on currency and timeliness of reporting.

We would be pleased to discuss any aspect of this letter you may wish to raise with us.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Hans van Damme', is written over a horizontal line.

Hans van Damme
President

30 April 2010

Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street, 4th Floor
Toronto, Ontario M5V 3H2

Dear Sir:

Thank you for the opportunity to comment on the International Public Sector Accounting Standards Board (IPSASB) Consultation Paper – *Reporting on the Long-Term Sustainability of Public Finances*. I am responding on behalf of the Office of the Auditor General of Canada.

The consultation paper presents several preliminary views establishing the concepts that are to be applied in developing IPSAS and other documents that provide guidance on long-term sustainability information to be included in General Purpose Financial Reports.

We offer the following responses to the specific questions posed to respondents and trust that you will find these comments helpful. Should you have any questions, please do not hesitate to contact Richard Domingue at (613) 995-3708.

Yours sincerely,

Neil Maxwell
Assistant Auditor General

1. The presentation of information on long-term fiscal sustainability is necessary to meet the objectives of financial reporting (accountability and decision-making) as proposed in the IPSASB's Consultation Paper, "Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities," issued in September 2008 (Section Two).

We are in agreement with this view.

Because the long-term impact of a continually rising debt burden is the steady erosion of the public's standard of living, governments should ensure that public finances are managed soundly in a context of long-term economic growth. The assessment of long-term fiscal sustainability is required to meet the objectives of long-term economic growth.

Not only should information about the past and present be reported but also prospective financial and other information about future service delivery should be disclosed. The degree to which a government will be able to maintain existing programs and meet creditors requirements in the future allows for the sustainability of the financial condition to be assessed.

In addition to being a requirement for appropriate financial reporting, long-term financial and non-financial information can support governments in making decisions and provide the legislature with the appropriate perspective to review budget proposals.

As mentioned in our letter of 31 March 2009 regarding the IPSASB *Consultation Paper – Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* we continue to believe that given the scope of the GPFRs goes beyond "financial" reporting, the report might be more appropriately called "*General Purpose Performance Reports*".

2. IPSASB guidance should recommend that long-term fiscal sustainability information in GPFRs be presented either through:

- **Additional statements providing details of projections; or**
- **Summarized projections in narrative reporting (Section Three).**

We are in agreement with this view.

Considering the challenges of producing and reporting long-term fiscal sustainability information, the proposed approach is reasonable. The presentation of long-term sustainability summarized in narrative reporting would be a significant first step. Long-term challenges such as demographic changes, environmental liabilities, globalisation, economic conditions and how they could put pressure on the public finances in the long-term should be published. Fiscal sustainability could be described by reporting on issues such as: future liabilities/obligations; funding of future liabilities; and the governments' ability to provide services to future generations compared to benefits provided to current generations. The narrative description could also include sensitivity analysis for changes in assumptions (e.g. economic uncertainty) to illustrate the long-term exposure to fiscal risks.

The production of additional statements providing details of fiscal sustainability projections is a more difficult reporting objective to meet. It requires more robust methodology, analytical/modelling capacity, key assumptions (for example: real GDP growth, employment rate, labour productivity, demographic projections...) and access to accurate data.

It is important to note that the capacity to produce fiscal sustainability information will vary greatly between jurisdictions. Also, by association to the financial statement, the SAIs might have to provide some assurance that the reported long-term projections are reasonable and based on fair assumptions. This capacity to review the projections will greatly impact some SAIs since their ability to review the information reported can be limited.

3. IPSASB guidance should be based on the concept of the reporting entity and should provide recommended practice for consolidated reports presented by all levels of government (Section Four).

We are in agreement with this view.

A consolidated approach by levels of government to reporting fiscal sustainability should be used. Individual entity reporting on fiscal sustainability could be of low value and could be costly to produce. Because some entities do not have revenue raising capacity and they do not control the funding decisions, reporting on fiscal sustainability could be misleading. This should not prevent some controlled entities from reporting long-term sustainability of their financial position if they believe it would be useful to support the decision-making process.

4. IPSASB guidance should recommend that long-term fiscal sustainability indicators be selected based on (a) their relevance to the entity, (b) the extent to which the indicators meet the qualitative characteristics of financial reporting, and (c) their ability to describe the scale of the fiscal challenge facing the entity. It should also recommend that comparative information is provided and that the reasons for ceasing to report indicators, if this occurs, are disclosed (Section Five).

We are in agreement with this view.

Common sustainability indicators usually include Debt-to-GDP and Deficit-to-GDP. As proposed by the CICA in 1997, other sustainability indicators could include: assets-to-liabilities; financial assets-to-liabilities; and net debt-to-total annual revenue.

In regard to criteria c) mentioned above, it is important that IPSASB recognizes that using historical data for projecting future fiscal position has limitations. Future trends will not be captured properly by simply reporting sustainability indicators. For example, even though a government with low debt-to-GDP ratios is better off because of lower debt servicing costs, what matters from a sustainability perspective is the speed at which the ratio increase. A rising debt burden will lead to a gradual erosion of living standards. For appropriate reporting, what are required are not only statistics and ratios that will report the fiscal position at a given time based on historical data but also long-term fiscal projections. As mentioned by the CICA in its report entitled *Indicators of Government Financial Condition* (1997), sustainability is both a dynamic and a static concept – in the sense that the speed at which fiscal position changes as well as its level matter. Therefore, governments must project trends in public expenditures and tax revenues using appropriate methodology (this includes reporting demographic projection as well as long-term economic and fiscal projections).

5. IPSASB guidance on long-term fiscal sustainability reporting in GPFs should recommend that the entity disclose:

- Any deviations from the principle that long-term fiscal sustainability projections are based on current policy;
- The basis on which projections of inflows from taxation and other material revenue sources have been made;
- Any other key assumptions underpinning long-term fiscal sustainability projections; and
- Details of key aspects of governing legislation and regulation, and the underlying macro-economic policy and fiscal framework (Section Six).

We are in agreement with this view.

For making projections, it would be a good practice to assume that current policy continues and not to incorporate future events based on assumptions. However, there could be cases where including firmly announced government commitments could add valuable information (e.g. promised tax reduction) and increase the accuracy of the long-term projections. Any deviation should be clearly disclosed.

We agree with paragraphs 6.2.5 - 6.2.7 which state that both bottom-up and top-down approaches are useful and complementary approaches to project fiscal sustainability. A particular strength of the top-down approach is that it starts from the proposition that governments will operate in a fiscally prudent manner. This approach assumes that the path of fiscal aggregate will be kept in line with fiscal policy objectives and that spending will be constrained at one point. The bottom-up approach allows richer details of the individual drivers of spending and revenue to be examined. It illustrates the pressure that long-term trends such as ageing or environmental depletion could exert on public finance. Both bottom-up and top-down fiscal projections should be included since they present a good picture of what challenges the government might be facing in the future and what might have to be done to meet the fiscal rules. However, projecting revenues and spending level when the economy is operating below its full potential can be misleading since the government actions deal with exceptional conditions. It could be misleading to project the fiscal position resulting from exceptional circumstances over the long-term.

We agree that it is important that users be informed of the main sources of tax revenues and the method used to project its growth. Also, key demographic and economic assumptions should be clearly disclosed.

We also agree that when there is a legal obligation to report long-term fiscal sustainability that the legal framework for developing and reporting of long-term fiscal sustainability information be disclosed in the GPF. If there are no legal requirements, the guiding principles for reporting long-term projections should be published (this could include: frequency of reporting, the need to include sensitivity analysis and the requirement to clearly present changes in the methodology, key assumptions and source of data). Finally the fiscal framework of the government and the guiding principles for managing the public finances should also be clearly reported (these principles could include for example: transparency, stability, fairness, efficiency or responsibility, economic growth).

6. IPSASB guidance on long-term fiscal sustainability reporting in GPFs should recommend that the entity disclose:

- **Time horizons for fiscal sustainability projections presented or discussed in the GPFs as well as the reason for modifying time horizons and any published plans to modify those horizons;**
- **Discount rates, together with the reason for their selection;**
- **Results of key sensitivity analyses; and**
- **Steps taken to ensure that projections are reliable (Section Seven).**

We are in agreement with this view.

Time horizons should be determined. As well, in order to assure credibility and quality, changes in methodologies, assumptions and data sources should be mentioned in the GPFs. Changes must be justified to provide assurance about the quality of the projections and a basis for a fair assessment of a country's fiscal future. Sensitivity analyses should also be reported to illustrate the impact demographic changes or economic shock could have on fiscal risks. Alternative projections should be considered for key economic variables such as employment rate, productivity growth and interest rates. Finally it is reasonable to expect that measures will be taken by the reporting entity to challenge the quality of the projections, including a peer review process or the use of private sector forecasters.

7. IPSASB guidance on long-term fiscal sustainability reporting in GPFs should recommend that (a) the underlying projections should have been prepared or updated within five years of the reporting date, and (b) the date of preparation or update should be disclosed (Section Seven).

We are in agreement with this view.

This being said, it should be noted that the OECD now suggests (see: OECD, The Benefits of Long-term Fiscal Projections, October 2009) that fiscal projections be prepared annually in order to "draw attention to the long-term fiscal consequences of current policies and eliminate discretion over when projections are produced". Based on that principle, the Committee might wish to review the frequency of reporting.



À Paris, le 28 AVR. 2010

Comité consultatif sur la normalisation des comptes publics

Le Président

Objet : document de consultation de l'IPSAS Board relatif à l'information sur la soutenabilité financière de long terme des finances publiques

Le présent document constitue une réponse de la Cour des comptes française, relative à la consultation de l'IPSAS Board sur l'information sur la soutenabilité de long terme des finances publiques.

Au sein de la Cour des comptes, le comité consultatif des juridictions financières sur la normalisation des comptes publics prépare les avis de celle-ci sur les questions de normalisation comptable relatives aux trois secteurs des administrations publiques (Etat, collectivités territoriales, sécurité sociale). Ce comité prépare les positions qui seront tenues par les représentants des juridictions financières dans les différentes instances de normalisation.

La soutenabilité des finances publiques est un sujet qui revêt une importance particulière non seulement en période de crise financière, mais également en « régime de croisière », pour la gestion des entités du secteur public, quel que soit le secteur auquel elles appartiennent (Etat, collectivités territoriales, sécurité sociale).

En effet, l'information relative à la soutenabilité est complémentaire à l'information donnée par le bilan des entités publiques ; au passif de ce bilan figurent les obligations actuelles qui donneront lieu à des décaissements futurs, ce qui peut, d'une certaine manière, constituer un premier échelon d'informations relatives à la soutenabilité : l'ensemble du patrimoine et des droits acquis finançant l'ensemble des

obligations dont la génération est constatée à la date de clôture des comptes.

Mais l'information donnée par le bilan doit être complétée pour donner une vision plus large sur les décaissements, et, lorsque cela est applicable, les encaissements futurs ; de la manière la plus large, cela concerne l'ensemble des contributions futures concourant à l'ensemble des engagements futurs, tels qu'attendus à législation constante à la date de la production de l'information.

Compte tenu de l'importance de ce sujet, il convient de le traiter en proposant d'abord une définition de la soutenabilité, ou au moins un périmètre de ce que peut recouvrir le terme, avant de déterminer plus précisément quel type d'information (et sous quelle forme) relève de ce périmètre.

1. Définition

Le document de consultation de l'IPSAS Board propose la définition suivante de la soutenabilité : « *capacité d'une autorité publique à remplir sa mission de service public et à honorer ses engagements financiers aussi bien dans le présent que dans le futur* ». Cette définition est intéressante ; l'IPSAS Board ayant indiqué qu'elle constituait une définition de travail, elle gagnerait à être précisée. On peut en effet trouver plusieurs types d'applications, et notamment :

- une application macro-économique, appliquée à une entité globale ou à un groupe d'entités consolidées sur un périmètre étendu (Etat par exemple) ;
- une application plus détaillée, sur certaines politiques publiques, avec une projection de certaines dépenses à législation constante, sur le court ou moyen terme ; cela peut par exemple concerner des dépenses non financées par des recettes affectées, mais dépendantes de facteurs externes (dépenses directement liées aux évolutions démographiques par exemple ; en France, ce type de dépenses concerne plus particulièrement l'Etat et les collectivités territoriales) ;
- une application intermédiaire entre ces deux modèles, avec des indicateurs calculés sur le long terme, pour certains types de dépenses financées ou non par des recettes affectées ; en France, un exemple typique est le besoin de financement actualisé du régime de retraite des fonctionnaires de l'Etat ; les régimes de base de la sécurité sociale sont également concernés par cette approche.

La soutenabilité au sens macroéconomique

Il n'existe pas de définition universellement reconnue de la soutenabilité au sens macroéconomique, mais on peut considérer que les finances publiques sont soutenables, en ce sens, si les recettes futures des administrations publiques (ou du seul Etat, ou du seul secteur des collectivités territoriales, ou du seul secteur de la sécurité sociale), à un horizon infini, suffisent pour payer la dette actuelle et les dépenses futures, à législation constante. La difficulté est surtout d'en donner une formulation mathématique opérationnelle.

Selon la formulation la plus fréquemment retenue, la dette publique doit être

stable en pourcentage du PIB à un horizon infini, quel que soit le niveau auquel elle est stabilisée, pour que la situation des finances publiques soit soutenable. Sous des hypothèses relativement peu contraignantes, les recettes futures permettent en effet alors de couvrir la dette actuelle et les dépenses futures.

Des indicateurs macroéconomiques peuvent donner une approche de ce type de soutenabilité.

L'évolution à court ou moyen terme de certaines politiques publiques

En France, les contrôleurs financiers centraux ou régionaux¹ sont chargés de vérifier², pour chaque politique publique de l'Etat « *l'adéquation des projets de dépenses d'un responsable administratif aux droits de paiement qui lui sont notifiés ou qui sont susceptibles de lui être délégués dans le futur. Elle mesure sa capacité à honorer les engagements qu'il entend souscrire* ».

Une politique publique, quel que soit l'outil budgétaire qui la retrace (une mission, un programme ou leur déclinaison locale, à savoir un budget opérationnel de programme³), est donc soutenable si les crédits attribués et prévus suffisent pour payer les dépenses déjà engagées et, plus généralement, les dépenses « *obligatoires ou inéluctables* ».

Ce type de soutenabilité s'apprécie sur un horizon pluriannuel relativement court puisqu'il faut pouvoir connaître approximativement les crédits qui seront disponibles : en pratique, ce pourrait être l'horizon triennal.

La publication d'indicateurs de type « dépenses projetées, à législation constante », peut se révéler intéressante dans ce cas, particulièrement pour les dépenses dont la dynamique dépend de facteurs externes, comme la démographie par exemple. Dans ce cas, une prévision sur 3, 5 ou 10 ans peut être éclairante.

On peut aussi considérer que le premier indicateur de soutenabilité de ce type est le passif du bilan, qui doit jouer son rôle de « projecteur » sur les dépenses futures liées à des obligations actuelles. Les engagements hors bilan fournissent également une information de ce type ; en France, les entités appartenant aux trois secteurs des administrations publiques (Etat, collectivités territoriales, sécurité sociale) doivent ainsi

¹ Fonctionnaires placés dans chaque ministère et au sein des administrations déconcentrées, notamment chargés de « *contribuer à l'identification et à la prévention des risques financiers ainsi qu'à l'analyse des facteurs explicatifs de la dépense et du coût des politiques publiques.* »

² Selon une circulaire du 28 juillet 2006 de la direction du budget sur le contrôle budgétaire.

³ Les termes de « mission » et de « programme » sont issus de la loi organique relative aux lois de finances, qui fixe en France les règles et procédures budgétaires de l'Etat. Le budget de l'Etat comprend une trentaine de « missions », qui sont l'expression de politiques publiques, et qui sont elles-mêmes composées de « programmes ». Les « budgets opérationnels de programmes sont les déclinaisons locales des programmes.

détailler dans l'annexe de leurs comptes les engagements reçus et donnés.

Des éléments de soutenabilité de long terme

Enfin, des indicateurs de soutenabilité de long terme peuvent être pertinents dans le cas de dépenses partiellement ou totalement financées par des ressources affectées : il s'agit de vérifier l'adéquation des ressources au niveau de dépenses projetées, sur une durée longue ; en France, le besoin de financement actualisé du régime de retraite des fonctionnaires, publié chaque année dans l'annexe du compte général de l'Etat, montre l'évolution des dépenses et des recettes du régime, en tenant compte d'hypothèses de recrutements et d'évolutions de carrière (sur une durée longue : 100 ans). C'est aussi le cas de l'information indiquée dans l'annexe des comptes de l'Etat fédéral américain (projections sur les programmes « Sécurité sociale »).

En France, un exemple de données de ce type est fourni dans les rapports du conseil d'orientation des retraites (COR), organisme consultatif public qui suit les différents régimes de retraite légalement obligatoires, et dont l'une des missions consiste à décrire les évolutions et les perspectives à moyen et long termes de ces régimes, et élaborer, au moins tous les cinq ans, des projections de leur situation financière. Ces perspectives sont établies sur les 40 prochaines années, selon différents scénarios liés à des hypothèses économiques et démographiques, et donnent lieu à une projection annuelle des ressources et des emplois de ces régimes, à législation constante. Les données sont établies en unités monétaires (millions d'euros) et en % du PIB. Les rapports du COR ne sont pas établis dans un cadre comptable, et ne donnent pas lieu à certification. Toutefois, la Cour des comptes, chargée de certifier les comptes de l'Etat, vérifie que l'information figurant en annexe aux comptes explicite la cohérence entre les rapports du COR et le besoin de financement actualisé du régime des pensions de l'Etat tel qu'il figure dans l'annexe au compte général de l'Etat.

Le dernier rapport du COR date du 14 avril 2010 et actualise les projections de 2007. Les informations qu'il contient permettent de compléter très utilement celles fournies par les comptes des régimes de retraite de base par répartition de la sécurité sociale et qui sont établis selon une approche « due and payable ».

2. Conséquences sur la nature et le statut de l'information à fournir

Les conséquences de l'existence de ces différentes applications de la soutenabilité peuvent être tirées sur la nature et le statut de l'information à fournir.

Les projections relatives à certaines dépenses publiques peuvent concerner une période de temps plus courte que les éléments de soutenabilité de type besoin de financement actualisé ou la soutenabilité macro-économique, même si cette dernière peut aussi se concevoir sur des échelles de temps progressives (cf. les projections triennales relatives au programme de stabilité pour les Etats membres de la zone euro).

Même si des outils de prévision et des éléments statistiques extracomptables (démographiques par exemple) sont parfois nécessaires pour effectuer des projections

de dépenses de certaines politiques publiques, ils sont généralement moins « lourds » que les éléments nécessaires à l'appréciation de la soutenabilité macro-économique, qui font appel à des outils économétriques plus sophistiqués. Les éléments de soutenabilité de type besoin de financement actualisé sont intermédiaires entre ces deux conceptions.

Enfin, la forme que peut revêtir cette information peut également être différente : les projections macro-économiques sont nécessairement plus globales, alors que les éléments de projections de certaines dépenses peuvent être plus précis, ne serait-ce que parce que le poids des hypothèses à prendre en compte et la durée sont moins importants. Là encore, les éléments de soutenabilité de type besoin de financement actualisé sont intermédiaires entre ces deux conceptions.

On peut donc aboutir à plusieurs grandes catégories d'informations sur la soutenabilité :

- une information donnée par le passif du bilan et par les engagements hors bilan ;
- une information de court ou moyen terme, relativement précise sur quelques (ou sur toutes les) grandes politiques publiques, et faisant appel à des hypothèses et des éléments extracomptables mais s'appuyant prioritairement sur une base comptable ; ce type d'information pourrait d'ailleurs particulièrement s'appliquer à certains dispositifs d'intervention ; en ce sens, on peut parler d'éléments de soutenabilité plutôt que d'une mesure de la soutenabilité globale ;
- une information de type « besoin de financement actualisé », ou « besoin de majoration des ressources » exprimé par rapport au revenu ou à la richesse nationale, sur le long terme mais relative à un type de dépenses financées par des ressources affectées (ce peut être le cas de certaines dépenses d'intervention, ou de régimes de retraite ou sociaux) ; on peut là aussi parler d'éléments de soutenabilité ;
- une information de plus long terme, macro-économique, globale, nécessitant des hypothèses et des éléments extracomptables plus « lourds ».

Ces différents types d'information peuvent être publiés, selon leur proximité avec les comptes :

- dans l'annexe des comptes ;
- dans un rapport de soutenabilité *ad hoc* ;
- dans un rapport de gestion qui peut accompagner la présentation des comptes, mais n'en fait pas partie.

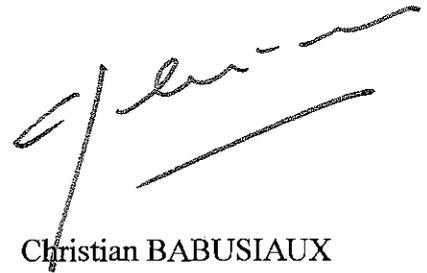
3. Conséquences sur le caractère certifiable ou non de l'information

S'agissant du caractère certifiable ou non de cette information, on peut distinguer plusieurs niveaux d'information :

- l'information directement incluse dans les états financiers, et donc certifiable ; en France, actuellement, c'est le cas du besoin de financement actualisé relatif au régime de retraite des fonctionnaires de l'Etat, qui figure dans l'annexe du compte général de l'Etat ; lorsque les enjeux financiers le justifient, il convient en effet de faire figurer les éléments les plus significatifs de ce type dans des documents certifiables (bilan ou annexe) ;

- l'information incluse dans un rapport de gestion et celle incluse dans un rapport *ad hoc*, qui n'est pas certifiable, mais dont un auditeur indépendant, qui pourrait être le certificateur, pourrait donner une attestation que les données directement issues de la comptabilité concordent avec les états financiers ; l'auditeur indépendant pourrait vérifier que les données utilisées sont traçables et qu'elles sont définies par des méthodes explicites ;
- l'information non certifiable et non attestable ; ce peut être le cas des rapports exclusivement statistiques ou de comptabilité nationale.

En tout état de cause, la directive de l'IPSAS Board devrait laisser une certaine latitude sur ce point, compte tenu des différences d'organisation des Etats.



Christian BABUSIAUX

Annexe : points particuliers soumis à commentaire par l'IPSAS Board

- 1) *« La présentation d'information sur la soutenabilité des finances publiques à long terme est nécessaire au respect des objectifs du rapport financier (rendre compte de sa responsabilité financière et rapport de gestion) proposés dans le document de consultation du mois de septembre 2008 relatif au cadre conceptuel des rapports financiers du secteur public [pertinence, image fidèle, rapidité de publication, compréhension, comparabilité, et auditabilité] »*

Réponse : oui, sous réserve de pouvoir appliquer ces principes à des données extracomptables. La réponse est plutôt positive pour les données de type « projections de dépenses » ou « éléments de soutenabilité ». Pour les éléments de soutenabilité macroéconomique, l'image fidèle peut poser question (fidèle par rapport à quel référentiel ?), de même que l'auditabilité des modèles de projection, qui font généralement appel à des techniques parfois complexes.

- 2) *« La directive IPSAS devrait recommander que l'information sur la soutenabilité des finances publiques à long terme dans le rapport financier soit présentée:*
- *soit au travers d'états complémentaires donnant des détails de projection,*
 - *ou des projections synthétiques dans un rapport financier littéraire. »*

Réponse : des projections synthétiques peuvent être suffisantes dans un premier temps, mais des projections plus détaillées sont nécessaires pour que l'information soit pertinente. En particulier, en matière de projections détaillées de dépenses par grandes politiques publiques, le niveau de détail requis rend insuffisant un simple rapport littéraire, de même que pour les éléments de soutenabilité de type besoin de financement actualisé.

- 3) *« La directive IPSAS devrait fixer des règles pour les comptes par entité et seulement donner des recommandations pour les projections présentées dans les rapports financiers consolidés des différents niveaux de pouvoirs publics. »*

Réponse : une certaine latitude doit être laissée dans l'application des règles et/ou des recommandations, qu'il s'agisse du niveau local ou du niveau consolidé. Les règles de consolidation varient selon les Etats, en matière d'entités publiques, et une entité « consolidante » (au sens de la comptabilité générale) sur l'ensemble des administrations

publiques n'existe pas toujours. Ce point relève également d'une articulation avec les référentiels de comptabilité nationale, qui fixent les règles de présentation des comptes des administrations publiques pour des besoins statistiques.

- 4) *« La directive IPSAS devrait recommander que les indicateurs de soutenabilité fiscale à long terme soient basés sur (a) leur pertinence au niveau de l'entité, (b) la façon dont l'indicateur répondra aux objectifs qualitatifs du rapport financier, (c) leur capacité à décrire le niveau de challenge budgétaire auquel l'entité est confrontée. Il devrait également être recommandé de fournir une information comparative et de justifier l'arrêt d'utilisation de ratios, le cas échéant. »*

Réponse : oui, sous réserve de la réponse à la question 1 sur les objectifs qualitatifs à respecter.

- 5) *« La directive IPSAS sur la soutenabilité des finances publiques à long terme devrait recommander que soient présentés en annexe :*
- *toute dérive à la règle suivante : les projections de soutenabilité des finances publiques à long terme sont réalisées sur les bases des politiques publiques en vigueur ;*
 - *les hypothèses retenues pour calculer les produits relatifs à la taxation et les autres produits ;*
 - *toute autre hypothèse qui vient étayer les projections de soutenabilité des finances publiques à long terme ;*
 - *les principaux éléments des politiques publiques en vigueur (législation, réglementation, politique macro-économique) et cadre fiscal. »*

Réponse : oui, ces éléments doivent figurer dans l'annexe ou dans un rapport ad hoc de soutenabilité, selon la solution choisie.

- 6) *« La directive IPSAS sur la soutenabilité des finances publiques à long terme devrait recommander que soient présentés en annexe :*
- *le nombre d'années retenues pour projeter les données ainsi que la justification de cette durée, la justification d'une modification de durée ou d'une future modification de durée ;*
 - *les taux d'actualisation retenus et leur justification ;*

- *le résultat des analyses de sensibilité à une hypothèse clé ;*
- *la démarche retenue pour présenter des projections fiables. »*

Réponse : oui, ces éléments doivent figurer dans l'annexe ou dans un rapport ad hoc de soutenabilité, selon la solution choisie.

- 7) *« La directive IPSAS sur la soutenabilité financière à long terme devrait recommander que (a) les projections sous-jacentes devraient être préparées ou mises à jour dans les 5 années de la date de publication, et (b) que la date de préparation ou de mise à jour soit précisée dans le document. »*

Réponse : la durée de mise à jour dépend de besoins particuliers.



À Paris, le 28 AVR. 2010

Comité consultatif sur la normalisation des comptes publics

Le Président

Subject: IPSASB's Consultation Paper on the Reporting on the Long-Term Sustainability of Public Finances

This document presents the answer of the French Cour des comptes (the French Supreme Audit Institution) to the IPSAS Board's consultation paper on the Reporting on the Long-Term Sustainability of Public Finances. It has been prepared by the the Cour des comptes Consultative Committee on Public Sector Accounting Standards, competent for all Public Sector levels (central Government, local Governments, Social Security). This Committee is inter alia in charge of preparing the audit institutions positions for all matters dealt with by the French Public Sector Standard Setter.

The public finances sustainability is crucial for the management of public sector entities, whatever the sector to which they belong to (central Government, local Governments, Social Security), not only in times of financial crisis, but also in "cruising speed".

Indeed, the reporting on sustainability complements the information provided by the balance sheet. The liabilities recognized in the balance sheet represent the current obligations which will give rise to future payments. This, in a way, constitutes a first level of information relating to the public finances sustainability and to the funding of the obligations accounted for in the balance sheet.

This financial statements information must be complemented in order to provide a wider vision of the future payments, and, when applicable, to the future revenues. In a widest way, this relates to all future contributions financing all future commitments,

based on current policy at the date of issuing the reporting.

Considering the importance of this subject, we are of the opinion that we should first start with clarifying the definition of the fiscal sustainability, or at least its scope, before determining more exactly the information required and the way it is provided.

1. Definition

The IPSAS Board's consultation paper proposes the following definition for sustainability: "*The ability of government to meet its service delivery and financial commitments both now and in the future*". This definition is interesting, but as the IPSAS Board indicated that it constitutes a working definition, it should be further specified. It is indeed likely to have several meanings, such as:

- a macroeconomic application of that definition, regarding a global entity or a group of entities that are consolidated on a wide area (e.g. Central Government);
- a more detailed application, focused on particular public policies, with projections of expenses based on current legislation, in the short or medium term; this may involve expenditures not financed by earmarked revenue, but rather depending on external factors (expenses directly related to demographic changes, for example; in France, such expenditure are incurred in particular by the Government, both at the central and local level);
- an application between these two models, with indicators calculated in the long-term, relating to expenditure not funded from earmarked revenue: in France, a typical example is the amount of the discounted financing need for the central Government civil servants pension scheme; the basic social security schemes, managed by the French Social Security, are also covered by this approach.

Macroeconomic sustainability

There is no universally recognized definition of macroeconomic sustainability, but one can consider that the public finances are sustainable if the future revenues of the public entities (either considered as a whole or separately - the central Government, local Governments, or the Social Security administrations), at an infinite time horizon, are sufficient for paying the current debt and the future expenses, under a constant legislation. One of the main difficulties consists in getting an operational mathematical formulation.

According to the most frequent formulation, the public finances situation is sustainable if the national debt is stable in percentage of the GDP on an infinite horizon, whatever the stabilization level. Under assumptions of relatively low constraints, the future receipts allow to fund the current debt and the future expenses. Macroeconomic indicators can provide an approach of this type of sustainability.

The short or middle term evolution of certain public policies

In France, the financial controllers¹ are in charge of verifying², for each public policy of the central Government, *“the adequacy of the planned expenditure with the appropriations delegated, or likely to be delegated in the future, to the manager in charge, with emphasis put in the manager capacity to meet the commitments to be incurred”*.

A public policy, whatever is the budgetary tool implemented (“mission”, “programme” or their local denomination, namely an “operational budget of programme”)³, is thus sustainable if the appropriations can fund expenses and, more generally, the *“compulsory or inevitable”* expenses. This type of sustainability is appreciated on a relatively short time horizon because it is necessary to be able to know approximately the credits which will be available: in practice, it could be the three-year horizon.

The publication of indicators such “planned spending, at constant legislation” can be interesting in that case, particularly for the expenditure whose dynamics depends on external factors, as demography for example. In that case, a 3, 5 or 10 year-forecast can be useful.

In this respect, we can also consider that the first indicator of sustainability of this type is the amount of liabilities accounted for in the balance sheet, to the extent in which it has to play its role of “projector” on the future spending related to current obligations. The off balance sheet commitments also provide useful information; in France, the public entities belonging to the three sectors of public administrations (central Government, local Governments, Social Security) have to specify in the notes to their financial statements the off balance sheet commitments.

Long-term sustainability elements

Finally, indicators of long-term sustainability can be relevant in the case of expenses that are partially or totally financed through allocated resources: it is a matter of verifying the adequacy of the resources to the level of planned expenses, on a long term; in France, the amount of the discounted financing need for the central Government civil servants pensions scheme, disclosed in the notes to the annual central Government financial statements, shows the evolution of the pension scheme expenses

¹ Central Government officials who are placed in every ministry and within the local State administrations, in particular dedicated *“to contribute to the identification and to the prevention of financial risks as well as to the analysis of the explanatory factors of the spending and the cost of the public policies.”*

² According to a directive dated July 28th, 2006 from the budget directorate on the budgetary control.

³ The terms “mission” and “program” arise from the Constitutional bylaw on budget acts, which fixes in France the rules and budgetary procedures of the Central Government. The Budget includes around thirty “missions”, which are the expression of public policies, and that are composed of “programs” themselves. The “operational budgets of programs” are the local denominations of the programs.

and receipts, and provides the underlying assumptions related to recruitments and career developments, on a long term basis: 100 years). We understand it is also the case as regards the information given in the notes to the financial statements of the financial report of the USA Federal Government (projections on the “Social Security” programs).

In France, the financial reporting issued by the Pensions Advisory Council (the French acronym is COR) provides this kind of information. The COR is the public advisory body which follows the various legally compulsory pension plans, their evolutions and the medium and long-term perspectives of these schemes; one of its missions consists in elaborating, at least every five years, projections of their financial situation. These perspectives are established over the next 40 years, according to various scenarios in relation to economic and demographic assumptions, and give rise to an annual projection of resources and consumption of resources of these schemes, under a constant legislation. The data are established in monetary units (million euro) and in percentage of the GDP. The COR reports are not issued in an accounting framework, and are not submitted to audit. Nevertheless, the Cour des comptes, in charge of the certification of the central Government’s financial statements, verifies that the COR information relating to State civil servants pension scheme is consistent with the disclosure in the note to the Government financial statements relating to the discounted financing need for the central Government civil servants pensions scheme.

The COR report issued on 14 April 2010 provides information which usefully complements the Social Security financial statements information, based on the “due and payable” approach.

2. Consequences on the nature and status of the information to be provided

The nature and the status of the information to be supplied are to be determined in accordance with the above mentioned meanings of the sustainability definition.

The projections related to certain public expenses can concern a shorter period of time than the elements of sustainability of the “discounted financing need” type or the macroeconomic sustainability, even if this last one can also be conceived on progressive periods of time (cf. the three-year projections relative to the stability program for the Eurozone member States).

Even if forecast tools and non-accounting statistical (demographic for example) elements are sometimes necessary to make expense projections for certain public policies, they are generally less “heavy” than the elements that are necessary for the appreciation of the macroeconomic sustainability, which appeal to more sophisticated econometric tools. The sustainability elements of the “discounted financing need” type are intermediate between these two conceptions.

Finally, the form that can take this information may also be different: the macroeconomic projections are necessarily more comprehensive, while the projections of certain elements of expenses may be more precise, because the weight of assumptions to take into account and the duration are less important in the latter case. The sustainability elements of the “discounted financing need” type are intermediate

between those two conceptions.

We can thus end in several categories of information on sustainability :

- an information that is given by the liabilities of the balance sheet and by the off-the-balance-sheet commitments;
- an information of short or middle term, relatively precise on some (or on all) public policies, and appealing to hypotheses and non-accounting elements but leaning firstly on an accounting base; this type of information could apply particularly to certain intervention or social policies; in this way, we can rather speak about elements of sustainability than of a measurement of the global sustainability;
- an information of the “discounted financing need” type, or “need of increase of the resources” expressed with regard to the national income or wealth, about the long term but relative to a specific type of spending financed through allocated resources (it can be the case of certain intervention or social expenses, or pension or social plans); we can also speak there about elements of sustainability;
- an information of longer term, more macroeconomic, more global, requiring hypotheses and “heavier” non-accounting data.

These various types of information can be published, according to their nearness with the accounts:

- in the notes to the financial statements;
- in a dedicated sustainability report;
- in a financial report that can be published with the financial statements, but that is not part of the financial statements.

3. Consequences on the certification (legal audit) of the information

Concerning the certification of that information, several levels can be distinguished:

- the information that is directly included in the financial statements, and thus that is certifiable; in France, at present, it is the case of the amount of the discounted financing need for the central Government pensions scheme, that appears in the notes to the financial statements of the central Government; when the financial stakes justify it, it is indeed advisable to make represent the most significant elements of this type in certifiable documents (balance sheet or notes, according to the accounting standards);
- the information that is included in a general financial report and the information that is included in a dedicated sustainability report, which is not certifiable, but of which an independent auditor, who could be the legal auditor, could give an assessment that the data directly stemming from the accounting system suit to the financial statements; the independent auditor could verify that the used data are auditable and that they are defined by explicit methods;
- the non-certifiable and “non-assessable” information; it can be the case of the exclusively statistical or national accounting reports.

In any case, the IPSAS Board's guidance should leave a certain flexibility on this point, considering the differences of States' organization.



Christian BABUSIAUX

Annex : comments on the seven Preliminary Views submitted by the IPSASB

- 1) *The presentation of information on long-term fiscal sustainability is necessary to meet the objectives of financial reporting (accountability and decision-making) as proposed in the IPSASB's Consultation Paper, "Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities," issued in September 2008 (Section Two).*

Answer : Yes, subject to being able to apply these principles to non-accounting data. The answer is rather positive for the data of the "projections of spending" type or the "elements of sustainability" type. For the macroeconomic sustainability elements, the "true and fair view" can ask question (with regard to which standard ?), as well as the auditability of the projections models, which generally appeal to sometimes complex techniques.

- 2) *IPSASB guidance should recommend that long-term fiscal sustainability information in GPFs be presented either through: Additional statements providing details of projections; or Summarized projections in narrative reporting (Section Three).*

Answer: synthetic projections can be sufficient at first, but more detailed projections are necessary so that the information is relevant. In particular, in detailed projections of spending by public policies, the level of required detail makes insufficient a simple narrative reporting, as well as for the sustainability elements of the amount of the discounted financing need type.

- 3) *IPSASB guidance should be based on the concept of the reporting entity and should provide recommended practice for consolidated reports presented by all levels of government (Section Four).*

Answer: a certain flexibility must be left in the application of rules and/or recommendations, that it is about the local level or about the consolidated level. The rules of consolidation vary according to States, in public entities, and an consolidating entity (in the sense of the accrual accounting) on all the public administrations does not still exist.

This point also recovers from an articulation with the reference tables of national accounting, which fix the rules of presentation of the accounts of the public administrations for statistical needs.

- 4) *IPSASB guidance should recommend that long-term fiscal sustainability indicators be selected based on (a) their relevance to the entity, (b) the extent to which the indicators meet the qualitative characteristics of financial reporting, and (c) their ability to describe the scale of the fiscal challenge facing the entity. It should also recommend that comparative information is provided and that the reasons for ceasing to report indicators, if this occurs, are disclosed (Section Five).*

Answer: yes, subject to the answer to the question 1 on the qualitative objectives to be fulfilled.

- 5) *IPSASB guidance on long-term fiscal sustainability reporting in GPFs should recommend that the entity disclose: Any deviations from the principle that long-term fiscal sustainability projections are based on current policy; The basis on which projections of inflows from taxation and other material revenue sources have been made; Any other key assumptions underpinning long-term fiscal sustainability projections; and Details of key aspects of governing legislation and regulation, and the underlying macro-economic policy and fiscal framework (Section Six).*

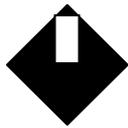
Answer: yes, these elements have to appear in the notes or in the dedicated report of sustainability, according to the chosen solution.

- 6) *IPSASB guidance on long-term fiscal sustainability reporting in GPFs should recommend that the entity disclose: Time horizons for fiscal sustainability projections presented or discussed in the GPFs as well as the reason for modifying time horizons and any published plans to modify those horizons; Discount rates, together with the reason for their selection; Results of key sensitivity analyses; and Steps taken to ensure that projections are reliable (Section Seven).*

Answer: yes, these elements have to appear in the notes or in the dedicated report of sustainability, according to the chosen solution.

- 7) *IPSASB guidance on long-term fiscal sustainability reporting in GPFRs should recommend that (a) the underlying projections should have been prepared or updated within five years of the reporting date, and (b) the date of preparation or update should be disclosed (Section Seven).*

Answer: the updating period of time duration depends on particular needs.



**The Japanese Institute of
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April 30, 2010

Technical Director

International Public Sector Accounting Standards Board

International Federation of Accountants

277 Wellington Street West

Toronto, Ontario, Canada M5V 3H2

**Comments on the Consultation Paper “Reporting on the Long-Term
Sustainability of Public Finances”**

Dear Sir:

The Japanese Institute of Certified Public Accountants (“JICPA”) is pleased to comment on the Consultation Paper “Reporting on the Long-Term Sustainability of Public Finances”, as follows:

On “Request for Comments, Preliminary View 1 to 7”

1. The presentation of information on long-term fiscal sustainability is necessary to meet the objectives of financial reporting (accountability and decision-making), as proposed in the IPSASB’s Consultation Paper, “Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities,” issued in September 2008

(Section Two).

We agree with this preliminary view because of the following reasons.

The accountability and decision-making objectives of financial reporting are closely related with the information requirements of users of financial reports. In our view, information related to long-term fiscal sustainability is one of the most important to fulfill the objectives of financial reporting. This is due to the fact that the information is required by a potentially wide range of users to determine whether or not a government has the ability to meet its service delivery and financial commitments, both now and in the future.

We consider that the information related to long-term fiscal sustainability should be provided to the extent required to meet the qualitative characteristics of financial reporting. In our view, further discussion is required to clarify the actual period of “long-term”. IPSASB should consider whether the length of the period determines the extent to which would meet the qualitative characteristics of financial reporting, especially relevance and faithful representation, and reach a conclusion on whether a single report on the long-term sustainability of public finances or a greater number of such reports separated by the length of the period are required.

2. IPSASB guidance should recommend that long-term fiscal sustainability information in GPFRs be presented either through:
 - additional statements providing details of projections; or
 - summarized projections in narrative reporting (Section Three).

We agree with this preliminary view because of the following reasons.

Information concerning long-term fiscal sustainability is vitally important information to be disclosed in terms of fulfillment of governmental accountability, decision-making by citizens, etc.; therefore, governments should provide users of financial reports with its own reports on projections, rather than just providing cross-reference information.

We agree that long-term fiscal sustainability information in GPFRs be permitted to be presented through summarized projections in narrative reporting, as well as through additional statements providing details of projections because of the following reasons.

- (a) It is sometimes difficult for some local governments, public sector entities, and other organizations where revenue depends on grants from higher-ranking governments, to prepare their own long-term detailed fiscal projections.
 - (b) In countries and regions that are not used to disclosure of fiscal sustainability information, long-term and detailed fiscal projections by governments may be misunderstood as showing definite commitment, similar to that of formal budgets.
3. IPSASB guidance should be based on the concept of the reporting entity and should provide recommended practice for consolidated reports presented by all levels of government (Section Four).

We do not agree with this preliminary view because of the following reasons. Based on the concept of the reporting entity, if the scope of long-term fiscal sustainability reporting and that of general financial reporting were to be the same, this may help users' understanding of financial reports. We consider that more discussion is required to determine whether or not consolidated reports, based on the concept of the reporting entity and presented by all levels of government, meet the information needs of users, and fulfill the accountability and decision-making objectives of financial reporting. We want to stress the need for a requirement of combined long-term fiscal sustainability reports of the central government and local governments, in case of countries that are not producing consolidated financial reports of the central government and local governments, because the central government does not control the local governments, with respect to accountability and decision-making.

4. IPSASB guidance should recommend that long-term fiscal sustainability indicators be selected based on (a) their relevance to the entity, (b) the extent to which the indicators meet the qualitative characteristics of financial reporting, and (c) their ability to describe the scale of the fiscal challenge facing the entity. It should also recommend that comparative information be provided and that the reasons for ceasing to report indicators, if this occurs, are disclosed (Section Five).

Regarding the preliminary view, we do not agree to include the ability to describe the scale of the fiscal challenge facing the entity in the the selection of long-term fiscal sustainability indicators.

One reason for our objection is that this is not included in the qualitative characteristics of information in the “Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities”; therefore, the basis for the inclusion is not clear. A second reason is that, despite the fact that long-term fiscal sustainability is defined as the ability of a government to meet its service delivery and financial commitments both now and in the future, if long-term fiscal sustainability indicators be selected based on their ability to describe the scale of the fiscal challenge facing the entity, only the financial commitment will be emphasized, and information related to service delivery commitment will not be disclosed.

We agree with the remainder of this preliminary view.

5. IPSASB guidance on long-term fiscal sustainability reporting in GPFRs should recommend that the entity disclose:
 - any deviations from the principle that long-term fiscal sustainability projections are based on current policy;
 - the basis on which projections of inflows from taxation and other material revenue sources have been made;
 - any other key assumptions underpinning long-term fiscal sustainability projections; and
 - details of key aspects of governing legislation and regulations, and the underlying macro-economic policy and fiscal framework (Section Six).

We agree with this preliminary view.

The IPSASB should consider the recommendation of disclosure of projections based on more than one scenario. This is because long-term fiscal sustainability reports are based on several assumptions; therefore, disclosure of projections assuming only one scenario may not meet the qualitative characteristics of faithful representation.

The IPSASB should also recommend disclosure of long-term fiscal sustainability projection for each major policy.

6. IPSASB guidance on long-term fiscal sustainability reporting in GPFs should recommend that the entity disclose:
- time horizons for fiscal sustainability projections presented or discussed in the GPFs, as well as the reason for modifying time horizons and any published plans to modify those horizons;
 - discount rates, together with the reason for their selection;
 - results of key sensitivity analyses; and
 - steps taken to ensure that projections are reliable (Section Seven).

We agree with this preliminary view.

The IPSASB should recommend disclosure of the following information.

- (a) In addition to the results of key sensitivity analyses, information should be disclosed that enables users of financial reports to conduct sensitivity analyses. The reason for this is that for fiscal sustainability reports, which contain a lot of projections, the provision of information that enables critical analyses and recalculations is considered to be more important than the reliability of projections.
- (b) There should be inclusion of results of comparison between historical and current projections and the analyses. The reason for this is that if the results of comparison between historical and current projections and the analyses of such are disclosed, in addition to current projections, users of financial reports

will be able to understand the causes of the changes in the projections, thus providing more relevant information.

7. IPSASB guidance on long-term fiscal sustainability reporting in GPFRs should recommend that (a) the underlying projections should have been prepared or updated within five years of the reporting date, and (b) the date of preparation or update should be disclosed (Section Seven).

We agree with this preliminary view.

Yours sincerely,

Takao Kashitani

Executive Board Member - Public Sector Accounting and Audit Practice

Yasuo Kameoka

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The Technical Director
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Per e-mail
29 April 2010

Dear Stephenie,

CONSULTATION PAPER ON REPORTING ON THE LONG TERM SUSTAINABILITY OF PUBLIC FINANCES

We welcome the opportunity to provide comments on the Consultation Paper issued by the IPSASB dealing with *Reporting on the Long Term Sustainability of Public Finances*.

Our comments to you are set out in two sections:

- Section A outlines responses to the preliminary views outlines in the Consultation Paper; and
- Section B outlines general comments.

At the time of formulating our response to you, we were unable to engage with certain key stakeholders that would have an interest in this project. If additional comments are received, we will raise these with staff and the task force out of session.

Please feel free to contact me should you have any queries on our response.

Yours sincerely

A handwritten signature in dark ink, appearing to read 'Erna Swart', is written over a light grey rectangular background.

Erna Swart
Chief Executive Officer

SECTION A – RESPONSES TO PRELIMINARY VIEWS

PRELIMINARY VIEW ONE

The presentation of information on long-term fiscal sustainability is necessary to meet the objectives of financial reporting (accountability and decision-making) as proposed in IPSASB's Consultation Paper, "Conceptual Framework for General-Purpose Financial Reporting by Public Sector Entities", issued in September 2008.

While currently no fiscal sustainability reports are prepared locally, we agree that long-term fiscal sustainability reporting has the potential to enhance accountability and decision-making for users of financial statements. This type of reporting may also compliment other local initiatives, albeit in other disciplines, e.g., long term planning.

We do however note that, currently, many fiscal sustainability reports are provided as an enhancement to the budget and other documents, rather than as an enhancement to the financial statements. We are of the view that the IPSASB's focus in developing guidance on reporting long-term fiscal sustainability information, should be as an enhancement to general purpose financial statements. To ensure that the focus of the project is appropriate, the following key issues need to be addressed:

- (a) Are the users of financial statements and fiscal sustainability reports the same?
- (b) Can these users' needs be aligned?
- (c) Are the qualitative characteristics of general purpose financial statements and general purpose financial reports the same? (see response to preliminary view four)
- (d) Can fiscal sustainability measures, which are often expressed in economic terms, be linked back to and understood in the context of historical financial statements?

These questions may pose issues about how this type of information is reported as well as what information is reported.

PRELIMINARY VIEW TWO

IPSASB guidance should recommend that long-term fiscal sustainability information in GPFs be presented either through:

- *Additional statement providing details of projections; or*
- *Summarized projections in narrative reporting.*

We are of the view that the objectives of financial reporting and the needs of users may not be met by applying a single approach. It may be appropriate to adopt different approaches for central and sub-national levels of governments. At sub-national or local authority level it may be difficult to allocate revenue streams to specific programmes, particularly where these levels of government execute centrally funded programmes. In these instances, presentation of specific statements is difficult. At these levels, users' needs may best be met through of sustainability reports using summarized projections in narrative reporting that consider the activities of an entity taken as a whole.

At a national level, it may be easier to allocate revenue streams to specific programmes and therefore may be useful to present sustainability information using specific statements which provide detailed projections of programmes, accompanied by narrative reporting.

We agree that model three is not optimal as the objectives of other reports containing fiscal sustainability reports may differ from the objectives of general purpose financial reports as outlined in the conceptual framework.

PRELIMINARY VIEW THREE

IPSASB guidance should be based on the concept of the reporting entity and should provide recommended practice for consolidated reports presented by all levels of government.

We agree that if fiscal sustainability reports are provided to enhance general purpose financial statements that the boundary of financial statements and fiscal sustainability reports should be consistent. Thus, we support the use of a “control” based approach in determining the reporting boundary.

We agree that fiscal sustainability reports should be provided at all levels of government.

We would however not support the notion that fiscal sustainability reports are only prepared on a consolidated basis. To be consistent with the proposals in the Phase I of the IPSASB Conceptual Framework project, fiscal sustainability reports should be prepared for a reporting entity where users of such information exist. This would allow a more principles based approach to be followed when preparing fiscal sustainability reports.

PRELIMINARY VIEW FOUR

IPSASB guidance should recommend that long-term fiscal sustainability indicators be selected based on (a) their relevance to the entity, (b) the extent to which they meet the qualitative characteristics of financial reporting, and (c) their ability to describe the scale of the fiscal challenge facing the entity. It should also recommend that comparative information is provided and that the reasons for ceasing to report indicators, if this occurs, are disclosed.

While we agree with the overall principles to be used in selecting and disclosing information about the indicators used, we note the following concerns.

Selection of indicators

Indicators should be selected based on the relevance to the entity, but also based on their relevance to understanding the extent of the fiscal challenge in relation to the financial statements.

Qualitative characteristics

The qualitative characteristics of general purpose financial reports, as outlined in the IPSASB’s proposed conceptual framework include: Relevance, faithful representation, timeliness, understandability, comparability, and verifiability.

While some of these qualitative characteristics may be applied to general purpose financial reports, some may be inappropriate, and in some instances additional qualitative characteristics may also exist. As examples:

- “Economic” based measures of fiscal sustainability such as net worth, fiscal gap, inter-temporal budget gap, may not be relevant in relation to an entity’s financial statements, and may not be understandable by the users of the financial statements.
- Changes in government policy may result in comparable information not being available.
- A key characteristic of performance measures/indicators is that they are “measurable”; a characteristic that does not seem to fit within the current qualitative characteristics.

We therefore question whether:

- all the qualitative characteristics for general purpose financial reports have been identified; and
- if the same set of qualitative characteristics be applied to both general purpose financial statements and general purpose financial reports.

Use of indicators

Current disclosures recommend including the reasons for ceasing to report certain indicators. We believe that it may be useful to recommend disclosure of the reasons why new indicators were used.

PRELIMINARY VIEW FIVE

IPSASB guidance on long-term fiscal sustainability reporting in GPFs should recommend that the entity disclose:

- *Any deviations from the principle that long-term fiscal sustainability projections are based on current policy;*
- *The basis on which projections of inflows from taxation and other material revenue sources have been made;*
- *Any other key assumptions underpinning long-term fiscal sustainability projections; and*
- *Details of key aspects of governing legislation and regulation, and the underlying macroeconomic policy and fiscal framework.*

We agree with the recommended disclosures.

From reading the Consultation Paper it is unclear as to whether the actions to be taken by policy makers in correcting any “unsustainable” positions, if any, would be included in the report. It would be useful to clarify whether this is intended to be included in the report.

PRELIMINARY VIEW SIX

IPSASB guidance on long-term fiscal sustainability reporting in GPFs should recommend that the entity disclose:

- *Time horizons for the projections presented or discussed in the GPFs as well as the reason for modifying time horizons and any published plans to modify those horizons;*
- *Discount rates, together with the reason for their selection;*
- *Results of key sensitivity analyses; and*
- *Steps taken to ensure that projections are reliable.*

While we agree with the proposed disclosures, we note the following concerns:

- While sensitivity analyses are useful, they may distract users from the key message in fiscal sustainability reports. Care should thus be exercised when preparing and disclosing sensitivity analyses so as not to overburden users with information.
- The last disclosure requires entities to disclose steps taken to ensure that the projections are reliable. It may be useful to also provide information about steps taken to ensure that the projections are “faithfully representative”, “comparable” etc.

PRELIMINARY VIEW SEVEN

IPSASB guidance on long-term fiscal sustainability reporting in GPFs should recommend that (a) the underlying projections should have been prepared or updated within five years of the reporting date, and (b) the date of preparation or update should be disclosed.

[To be completed through other consultations]

A key determining factor in the frequency of reporting is the cost and effort of preparing the necessary information.

SECTION B - OTHER

Definition of long-term fiscal sustainability

The current “working” definition of fiscal sustainability as set out by the IPSASB in paragraph 1.2.6 of the Consultation paper is as follows:

The ability of government to meet its service delivery and financial commitments both now and in the future.

In general terms, fiscal sustainability should encompass four basic principles: solvency, growth, fairness and stable taxes. The current “working” definition captures the concepts of “solvency” and “growth” by references to meeting current and future commitments. The notions of fairness and stable taxes are, however, not adequately captured.

We are of the view that “fairness”, particularly in the context of intergenerational equity, is a key concept underpinning the assessment of fiscal sustainability.

The current definition appears to focus on the outflows to be incurred by governments, while sustainability encompasses an assessment of both inflows and outflows. References to sources of inflows, specifically taxes, may be useful in explanatory material accompanying the definition of fiscal sustainability. It may also be useful to note in explanatory material that fiscal sustainability implies “stable taxes”.

GENERAL

Role of the IPSASB and the format of guidance issued on General Purpose Financial Reports

It is unclear from the Consultation Paper in what format the IPSASB plans to provide the “guidance” on long term fiscal sustainability reporting.

As fiscal sustainability reporting is relatively new area, we agree that it may not be appropriate to mandate the preparation of these reports. It should however be the long term intention of the IPSASB to require this type of reporting to give credence to the proposed shift from general purpose financial statements to general purpose financial reports.

In the interim, we would suggest that a similar approach is followed to that currently required in IPSAS 22, “Reporting on the General Government Sector”, i.e. if entities prepare their financial statements in accordance with IPSASs and present this information, they must comply with the relevant IPSAS/guidance issued by the IPSASB.

Going concern

If long term fiscal sustainability reports accompany the general purpose financial statements, questions may be raised about whether, or if, any “unsustainable” positions reflected in general purpose financial reports will affect the going concern assumption used to prepare financial statements.

As general purpose financial reports reflect commitments and not obligations/liabilities of government, it is arguable that the government can avoid such commitments by changing government policy. However, some would argue that while policy can be amended to avoid certain commitments, e.g. by changing pensionable age or reducing pension benefits, some commitments cannot be avoided, e.g. the provision of basic services such as water and energy. In the latter instance, government may have “no realistic alternative” but to fulfil its commitments.

If it is not in a position to do so in the long term, it may in fact affect the going concern assumption used in the general purpose financial statements.

Long-term fiscal sustainability in developing economies

As noted above, we believe that fiscal sustainability reporting is both useful and necessary. We do however note as a developing economy, we would face a number of challenges in presenting this information. In particular:

- The necessary skills to produce this information at sub-national and local authority levels may be limited.
- Government policies change, some very drastically, with almost every election. This may have implications on the reliability and comparability of information presented.
- As infrastructure and other needs are being developed, government is often involved in many non-recurring projects that may span a period of less than 10 years (which is typically the minimum time frame envisaged in long-term fiscal sustainability reporting). Typical examples include construction of stadiums for international sporting events, construction of urban transport infrastructure etc. Current budgets and forecasts cover a period of 5 years. Many of these types of projects may not be sustainable within the medium term and do not require a “long term” assessment to establish their sustainability. Therefore what is typically “long term” in developed countries, may be “medium to long term” in other economies. The time horizon used will need to accommodate these scenarios.
- South Africa faces very volatile demographic risks, which may pose questions around the reliability of the information presented. The population growth and migration is very dynamic, making it difficult to obtain accurate census data. The prevalence, effect, treatment and research of HIV exacerbate issues regarding the assumptions used.



April 30, 2010

Ms. Stephenie Fox
Technical Director
International Public Sector Accounting
Standards Board
International Federation of Accountants
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Dear Ms Fox,

Re: Consultation Paper: Reporting on the Long-term Sustainability of Public Finances

We appreciate the opportunity to comment on the consultation paper mentioned above and would like to submit our comments as follows:

Given the widespread public interest in the challenges currently facing many central governments and other public sector entities throughout the world, the IDW supports the IPSASB encouraging public sector entities to firstly prepare, as a basis for informed decision making, and potentially provide to their stakeholders, information on the extent of the challenge faced in maintaining a sustainable fiscal path.

We agree that, given that the form and content of long-term fiscal sustainability reporting is still evolving, it is currently not appropriate for the IPSASB to prescribe a rigid approach. Indeed, because of this situation, we do not believe it will be possible, or indeed appropriate, to expect the majority of respondents to be in a position to provide well-founded views on the content of the paper, as views need time to mature as experience is gained. Thus, we would like to clarify that in voicing our general support for this initiative we are not expressing any view as to the appropriateness or otherwise of the content of the consultation paper. Nevertheless, we would like to draw your attention to certain particular concerns we have at this stage.

GESCHÄFTSFÜHRENDER VORSTAND:
Prof. Dr. Klaus-Peter Naumann,
WP StB, Sprecher des Vorstands;
Dr. Klaus-Peter Feid, WP StB CPA;
Manfred Hamann, RA



page 2/3 to the comment letter to the IPSASB dated April 30, 2010

Impact of IPSASB deliberations in developing a conceptual framework for the public sector

In developing the IPSASB's conceptual framework, there are many "open" issues which could arguably have a fundamental impact on the consultation and vice versa. In particular, the definition of the term "asset" in a public sector context (e.g., whether the power to collect tax is an asset and, if so, how it should be measured), the recognition of liabilities (whether the "due and payable approach" is overly restrictive) and the measurement bases for assets and liabilities – e.g., a move away from fair value to "deprival value" could have a significant impact on the decision of how to measure long-term items and thus on the "reliability" or ability to provide a "faithful presentation" of such amounts. In this context, we note below that this issue has audit implications and also note that others have addressed similar concerns as outlined in section 3.1.4 on pages 22 and 23.

Inclusion of information on long-term fiscal sustainability within the general purpose financial statements

One further area of concern we have relates to the connection the paper makes between the general purpose financial statements (GPFS) and the general purpose financial report (GPFR). We note that page 16 (2.2.6) states that information in the GPFS needs to be complemented [by information on the long-term sustainability of public finances] in order to facilitate an assessment of an entity's future financial viability. Whilst we agree that the objectives of financial reporting include accountability and decision making, we are not yet convinced that enhancing the information provided in the traditional GPFSs with information such as that dealt with in the consultation paper in order to facilitate an assessment of an entity's future financial viability is a necessity in meeting these objectives, as is purported in the paper. We do agree that information of the nature covered in the consultation paper might be included in the GPFR; however, no convincing case for the inclusion of this type of information within the GPFS has been made in the paper (e.g., page 18 (2.4.6) and page 19 (2.5.1 and 2.5.2)).

It would, therefore, be helpful for the IPSASB to clarify that it is not intending to suggest the Board might be countenancing the inclusion of the information dealt with in the consultation paper exclusively within the financial statements themselves, since including such extensive and comprehensive long-term information would result in a change of the very nature of financial statements, the basic purpose of which is to provide historical financial information. For



page 3/3 to the comment letter to the IPSASB dated April 30, 2010

example, including the potentially large values attributable to both “expected resources to be realized in the future” and “expected obligations to be settled in the future” as depicted on page 19, were these to encompass all such potential resources and obligations, within the statement of financial position could certainly distort the picture portrayed therein to such an extent as to render the remainder of the information presented in that statement insignificant. This would adversely affect users’ ability to understand the general purpose financial statements. Having said this, and whilst not wishing to preempt the outcome of the deliberations and consultation surrounding specific further IPSASB projects, we recognize that the Board may well consider whether it is appropriate for public sector entities to account, in a meaningful way, for social obligations and particular public sector specific assets within their GPFS in future.

As we have mentioned above, there are also significant audit implications attaching to this issue, not least the degree of assurance that might be meaningfully obtained on the type of long term future oriented information dealt with in the consultation paper. In this context we would like to reiterate one concern raised in our letter to you dated 31 March 2009 as to proposals to exclude “reliability” from the list of fundamental qualitative characteristics in favor of the term “faithful presentation”. The nature of the information of such long-term nature is such that it will not be useful if it is not accurate, and there is potentially an incentive, especially for governments to “defend” their own policies in presenting the best picture possible.

We would be pleased to answer any questions that you may have or discuss any aspect of this letter.

Yours truly,

A handwritten signature in black ink that reads 'Klaus-Peter Naumann'.

Klaus-Peter Naumann
CEO

A handwritten signature in black ink that reads 'Gillian A. Waldbauer'.

Gillian Waldbauer
Technical Manager



Treasury Board of Canada
Secrétariat

Secrétariat du Conseil du Trésor
du Canada

Ottawa, Canada
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APR 30 2010

Ms. Stephenie Fox
Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street, 4th Floor
Toronto, ONTARIO
M5V 3H2

Dear Ms. Fox:

SUBJECT: Reporting on the Long-Term Sustainability of Public Finances

Thank you for the opportunity to comment on the Consultation Paper – *Reporting on the Long-Term Sustainability of Public Finances* that was issued in November 2009.

By the way of background, the Government of Canada bases its accounting policies on the accounting standards issued by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA). Our government is not required to follow the International Public Sector Accounting Standards (IPSAS), however, IPSAS have become increasingly important as a secondary source of generally accepted accounting principles (GAAP) for Canadian governments. Consequently, we have read the consultation paper with interest, and our specific comments on the preliminary views posed are included in the attached Appendix.

Overall we do not support a mandatory standard on *Reporting on the Long-Term Sustainability of Public Finances*, and would prefer that any document produced by IPSAS be a recommended practice rather than a requirement for General Purpose Financial Reporting. As noted in the Consultation Paper, various countries already have legislation or policy that

Canada

- 2 -

requires sustainability reporting, the requirements of which are through legislation or policy. The development of such legislation or policy will have considered the needs of legislators and other users of the reports. Should IPSAS put in place mandatory requirements it could result in either reports that do not meet the needs of legislators/users in various jurisdictions or the need to prepare two reports, one as stipulated in legislation/policy and one for compliance with IPSAS. Also, most governments currently have various mechanisms for reporting on programs of a long-term nature. For example budgets provide long term views on financing and programs to be delivered by governments. There are also various reports on social benefit programs that discuss in more detail, and with proper context, the future sustainability of the programs (i.e. Canada Pension Plan Annual Report).

We thank you again for providing the opportunity to comment on this consultation paper. If you have any further questions related to these comments, please do not hesitate to contact either Ms. Diane Peressini at Diane.Peressini@tbs-sct.gc.ca (613-957-9671) or myself at Bill.Matthews@tbs-sct.gc.ca (613-957-9659).

Yours sincerely,



Bill Matthews
Assistant Comptroller General
Financial Management and
Analysis Sector

c.c.: James Ralston
Comptroller General of Canada

Appendix

Consultation Paper – Reporting on the Long-Term Sustainability of Public Finances – Comments on Preliminary Views

1. *The presentation of information on long-term fiscal sustainability is necessary to meet the objectives of financial reporting (accountability and decision-making) as proposed in the IPSASB's Consultation Paper, "Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities," issued in September 2008 (Section Two).*

Response:

- We believe that the International Public Sector Accounting Standards Board (IPSASB) should obtain consensus and issue a final standard on the "Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities," and complete the conceptual framework project before continuing to develop the guidance on "Reporting on the Long-Term Sustainability of Public Finances".
- Our fundamental issue is that the primary objective of financial reporting by governments is accountability. Therefore, we view the proposed scope of General Purpose Financial Reports (GFPRs) in the IPSASB conceptual framework as too broad, and should be limited to historical information, and exclude prospective and non-financial information.
- In our opinion, the proposed information on long-term fiscal sustainability does not meet the qualitative characteristics of faithful representation and verifiability as proposed in the conceptual framework. Completeness, neutrality and some minimum level of accuracy are necessary attributes to support the qualitative characteristic of faithful representation. However, the proposed long-term projections would necessarily entail a high level of speculation and, in many instances, arbitrary assumptions, given such long time horizons as envisaged in the paper. Sensitivity of the projections to small changes in assumptions will result in information that does not have a verifiable minimum level of accuracy, and that could be potentially subject to political bias.
- We suggest that this guidance be issued as a recommended practice rather than a reporting requirement. Various governments choose to report on long-term fiscal sustainability and this guidance would provide a framework to develop a consistent approach to this type of reporting; however, where legislators have developed legislation or policies that

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outline the form and content of such reporting, a requirement to issue reports based on IPSASB standards will only increase the reporting burden on governments.

2. *IPSASB guidance should recommend that long-term fiscal sustainability information in GPFs be presented either through:*
 - *Additional statements providing details of projections; or*
 - *Summarized projections in narrative reporting (Section Three).*

Response:

- As noted in our response to Question 1, we believe that a long-term fiscal sustainability report should not be within the scope of GPFs, and, therefore, would need to be issued as a stand-alone document when a government chooses to provide this type of information.
 - Summarizing the projections in narrative reporting that is presented with financial statements, such as the Management, Discussion and Analysis, would attribute undue credibility to the projections, which could then be viewed as having qualitative characteristics similar to those of the information contained in the balance of the annual report.
3. *IPSASB guidance should be based on the concept of the reporting entity and should provide recommended practice for consolidated reports presented by all levels of government (Section Four).*

Response:

- We agree that IPSAS guidance should provide recommended practice for the government reporting entity as defined for the government's general purpose financial reports.
4. *IPSASB guidance should recommend that long-term fiscal sustainability indicators be selected based on (a) their relevance to the entity, (b) the extent to which the indicators meet the qualitative characteristics of financial reporting, and (c) their ability to describe the scale of the fiscal challenge facing the entity. It should also recommend that comparative information is provided and that the reasons for ceasing to report indicators, if this occurs, are disclosed (Section Five).*

- 5 -

Response:

- Based on our comments in the attached letter and in the response to Question 1, we do not believe that the long-term sustainability reporting can sufficiently meet the qualitative characteristics of financial information. However, the plausibility of the reported information could be enhanced by criteria for the selection of indicators that take the qualitative characteristics of financial reporting into consideration.
 - We agree that the guidance should not be prescriptive in terms of the financial indicators selected; but a list of commonly used indicators is desirable.
 - We agree that it is good practice to provide comparative information and the reasons for ceasing to report indicators.
5. *IPSASB guidance on long-term fiscal sustainability reporting in GPFRs should recommend that the entity disclose:*
- *Any deviations from the principle that long-term fiscal sustainability projections are based on current policy;*
 - *The basis on which projections of inflows from taxation and other material revenue sources have been made;*
 - *Any other key assumptions underpinning long-term fiscal sustainability projections; and*
 - *Details of key aspects of governing legislation and regulation, and the underlying macro-economic policy and fiscal framework (Section Six).*

Response:

- We agree with these recommendations. It is important that the report contains these disclosures in order to promote understandability and provide support for the projections.
6. *IPSASB guidance on long-term fiscal sustainability reporting in GPFRs should recommend that the entity disclose:*
- *Time horizons for fiscal sustainability projections presented or discussed in the GPFRs as well as the reason for modifying time horizons and any published plans to modify those horizons;*
 - *Discount rates, together with the reason for their selection;*
 - *Results of key sensitivity analyses; and*
 - *Steps taken to ensure that projections are reliable (Section Seven).*

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Response:

- We support the recommendations on the disclosures of time horizons, discount rates and key sensitivity analysis. We also note that the report should provide some guidance on the criteria for the initial selection of a time horizon. While the consultation paper notes that the robustness of the assumptions declines inversely to its length, and that short time horizons run the risk of ignoring key events just beyond the period, positive selection criteria would also be useful.
 - Based on our response to Question 1, we believe that the wording in 7.5.1 stating that “the projections should be reliable for that purpose” requires modification. The extent to which the projections contained in the report could sufficiently possess the characteristic of reliability is questionable given the long time horizons. This section should instead only address the reasonability of the projections given a specified set of assumptions.
 - Since we believe that the long-term sustainability report should not be within the scope of GFPRs, obtaining assurance from the government’s auditors would be, therefore, outside the scope of the assurance model. The significant complexities that would arise under audit of this information serve to further indicate that the long-term sustainability report should not be a reporting requirement. However, the suggested disclosures related to the extent to which those responsible for preparing the report have confidence in the information presented, and performance of peer reviews, would assist in strengthening its plausibility.
7. *IPSASB guidance on long-term fiscal sustainability reporting in GPFs should recommend that (a) the underlying projections should have been prepared or updated within five years of the reporting date, and (b) the date of preparation or update should be disclosed (Section Seven).*

Response:

- A balance is required between the resources required to compile the long-term fiscal sustainability report compared with the relevance of a report that is more than two to three years old. We believe that governments should make this decision based on the rate of change of their fiscal policies and the relevance of the underlying economic and demographic assumptions in previous reports. As well, requirements in legislation for sustainability reports should be adhered to and respected.

Le 30 avril 2010

Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277, rue Wellington Ouest, 4e étage
Toronto (Ontario) M5V 3H2

OBJET : Document de consultation - Reporting on the Long-Term Sustainability of Public Finances

Madame,
Monsieur,

Vous trouverez ci-joints nos commentaires concernant le document de consultation mentionné en objet.

Nous sommes en désaccord avec le projet de l'IPSASB de publier des recommandations visant à encadrer la divulgation d'information sur la pérennité fiscale des programmes sociaux des gouvernements, surtout à l'intérieur même des rapports financiers. Nous croyons qu'il revient aux gouvernements de décider de la nature de l'information à divulguer en ce qui concerne leur pérennité fiscale. En effet, les gouvernements sont aptes à publier cette information, comme ils le font actuellement.

Par les recommandations soumises dans ce projet, l'IPSASB baliserait la présentation de l'information sur la pérennité fiscale à l'intérieur des rapports financiers. Or, les gouvernements présentent déjà de l'information à ce sujet dans d'autres rapports que les rapports financiers, et nous croyons que cette information est satisfaisante.

De surcroît, de par leur pouvoir de taxation et leur pouvoir discrétionnaire quant à la modification de l'étendue ou de la qualité de leurs programmes, ou quant à la mise en œuvre de ceux-ci, l'information publiée à l'égard de la pérennité fiscale des gouvernements peut ne pas être le reflet de l'avenir. Les gouvernements peuvent modifier la tarification de leurs services ou modifier les programmes sociaux offerts dans le but d'assurer leur pérennité fiscale à long terme. En conséquence, nous doutons de la pertinence et de l'utilité de divulguer une telle information dans les rapports financiers, étant donné que ces derniers reflètent principalement des opérations passées.

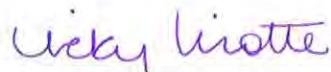
Par ailleurs, le paragraphe 7.5.4 implique les vérificateurs pour le jugement de cette information. À notre avis, une norme comptable ne devrait pas prendre en compte l'implication des vérificateurs. Il ne s'agit pas d'une norme de vérification.

...2

Nonobstant ce qui précède, si l'IPSASB décidait de maintenir la publication des directives proposées dans ce projet, nous estimons qu'elles devraient être publiées dans un guide séparé à titre de bonnes pratiques et non à titre de recommandations dans les normes publiées par l'IPSASB. Également, des exemples d'indicateurs devraient être présentés dans ce guide afin d'assurer une certaine uniformité entre les gouvernements si l'IPSASB veut aller de l'avant avec ce projet.

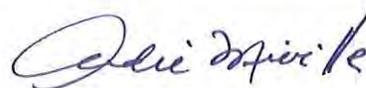
Nous espérons que nos commentaires vous seront utiles dans la poursuite de vos travaux et vous prions d'agréer, Madame, Monsieur, nos salutations distinguées.

La directrice de la normalisation,



Vicky Lizotte, CA

Le directeur général de la
pratique professionnelle,



André Miville, CA

c. c. Carole Boisvert, FCA
Contrôleur des finances

April 30, 2010

Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West
Toronto, Ontario M5V 3H2

RE: Consultation Document - Reporting on the Long-Term Sustainability of Public Finances

Dear Madam,
Dear Sir,

Please find enclosed our comments on the consultation document referred to above.

We disagree with the IPSASB proposal to issue recommendations aimed at regulating the disclosure of information on the fiscal sustainability of government social programs, especially within financial reports. We believe it is up to governments to decide the type of information to disclose regarding their fiscal sustainability. Indeed, governments are able to publish this information, as they do now.

In its recommendations submitted for this proposal, IPSASB would flag the presentation of information on fiscal sustainability within financial reports. Yet governments already provide information about this in reports other than financial reports, and we believe this information is satisfactory.

Moreover, because of their taxing power and discretionary authority in modifying the scope or quality of their programs, or in implementing them, published information regarding fiscal sustainability of governments may not be reflective of the future. Governments can change the fees charged for their services or change social programs in order to ensure their long-term fiscal sustainability. Accordingly, we doubt the relevance and usefulness of disclosing such information in financial reports, since they mainly reflect past transactions.

In addition, paragraph 7.5.4 implies that auditors would be involved in judging this information. In our opinion, an accounting standard should not take the involvement of auditors into account. It is not an auditing standard.

...2

Notwithstanding the foregoing, if IPSASB were to decide to continue with the publication of the proposed guidelines, we believe they should be published in a separate manual as good practice and not as recommendations in the standards published by IPSASB. Also, examples of indicators should be given in this manual to ensure consistency among governments if IPSASB wants to move forward with this proposal.

We hope that our comments will be helpful as you continue your work.

Yours truly

Vicky Lizotte, CA
Director, Standards

André Miville, CA
Director General,
Professional Practice

c. c. Carole Boisvert, FCA
Comptroller of Finance



G A O

Accountability * Integrity * Reliability

United States Government Accountability Office
Washington, DC 20548

April 30, 2010

Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West
Toronto, Ontario M5V 3H2 CANADA

Subject: International Public Sector Accounting Standards Board (IPSASB)
November 2009, Consultation Paper: *Reporting on the Long-Term Sustainability of Public Finances*

This letter provides the U.S. Government Accountability Office's (GAO) comments on the IPSASB *Consultation Paper: Reporting on the Long-Term Sustainability of Public Finances*. We commend the IPSASB on its efforts towards developing guidance for presenting information on long-term fiscal sustainability. Current general purpose financial reports convey information primarily about an entity's past transactions and prior economic events and do not provide the type of prospective information that is crucial for assessing the long-term financial condition of government programs. Complementing the current general purpose financial reports with forward-looking information on the government's long-term ability to meet its service delivery and financial commitments both now and in the future would provide more robust financial information for more informed decision-making by users. Also, we agree that the presentation of information on long-term fiscal sustainability is necessary to meet IPSASB's proposed accountability and decision-making objectives of financial reporting. In addition, as noted in the Consultation Paper, long-term fiscal sustainability information could be presented by both accrual basis and cash basis financial statement preparers.

We also appreciate that the IPSAS guidance may likely be utilized for a number of national governments and as such to accommodate the differences between government financial reporting practices and special considerations that flexibility is an important concept for consideration.

The Board has asked respondents for comments on the Preliminary Views in the Consultation paper. We provide the requested answers and comments in this letter.

1. Preliminary View

The presentation of information on long-term fiscal sustainability is necessary to meet the objectives of financial reporting (accountability and decision-making) as proposed in the IPSASB's Consultation Paper, "Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities," issued in September 2008 (section Two.)

Comment 1

We agree. We support the IPSASB's efforts towards developing guidance for presenting information on long-term fiscal sustainability and believe that the presentation of such information is an important and necessary step towards meeting the objectives of the proposed IPSASB Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities. Current general purpose financial reports (GPFs) convey information primarily about an entity's past transactions and prior economic events and do not provide prospective information on the long-term financial condition of government programs to meet IPSASB's financial reporting objectives.

In a similar manner, the GAO supported enhancements to U.S. federal accounting and financial reporting standards to more effectively convey the financial condition of the U.S. government and annual changes therein. In 2009, the Federal Financial Accounting Standards Advisory Board (FASAB) issued Statement of Federal Financial Accounting Standards 36 (SFFAS 36) titled, *Reporting Comprehensive Long-Term Fiscal Projections for the U.S. Government*. SFFAS 36 provides information to address the FASAB Stewardship objective for financial reporting which includes assisting users in assessing how the government's financial condition has changed and may change in the future. It further states that federal financial reporting should provide information that helps the reader to determine whether future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they become due. SFFAS 36 represents a key effort towards improving the transparency of the U.S. government's long-term financial condition and providing a comprehensive perspective on the projected future funding and spending for all federal government programs. Such comprehensive information on the U.S. government's financial condition will provide important information to the public and policy-makers for decision-making and so that prudent action can be taken. This effort will build on the U. S. government's experience in preparing and auditing the Statement of Social Insurance, which has received an unqualified opinion from GAO for fiscal years 2007, 2008, and 2009.

2. Preliminary View

IPSASB guidance should recommend that long-term fiscal sustainability information in GPFs be presented either through additional statements or summarized projections in narrative reporting (Section Three).

Comment 2

We encourage the development of guidance proposing that long-term fiscal sustainability information in GPFRs ultimately be presented through additional financial statements, complemented by summarized information on projections described in narrative reporting. We believe that a statement of long-term projections that illustrates receipts and non-interest expenditures disaggregated by major programs with disclosures such as the assumptions underpinning those projections can provide users with more readily accessible information on the government's long-term ability to meet its service delivery and financial commitments both now and in the future. Summarized narrative reporting of key aspects of the basic statement of long-term projections could be highlighted in summary sections of the GPFRs and could refer to the basic statement for further detail. In addition, we encourage that the guidance for summarizing projections provides flexibility and not be overly prescriptive or significantly redundant to information that is presented in other parts of the GPFRs. At the same time, we realize that including fiscal sustainability reporting in narrative reporting rather than as additional financial statements may be a necessary interim step for some reporting entities.

The U.S. federal government has adopted an approach that requires that long-term fiscal projections of inflows and outflows for the U.S. Government be presented in a basic financial statement¹ that displays projected amounts as both present value dollars and a percentage of the present value of gross domestic product (GDP) for the projection period and includes related disclosures. Key aspects of the basic statement are highlighted in the Management Discussion and Analysis section of the Financial Report of the U.S. Government. Under a phased-in implementation approach, the information in the basic financial statement and disclosures will be presented as unaudited required supplementary information for fiscal years 2010-2012.

Preliminary View 3

IPSASB guidance should be based on the concept of the reporting entity and should provide recommended practice for consolidated reports presented by all levels of government.

Comment 3

We agree that, as a first step, fiscal sustainability guidance should be developed for the same reporting entity used to report consolidated general purpose financial statements. We believe that this may provide greater clarity between the sources of funds available to the reporting entity and the scope of obligations that an entity must meet. At a subsequent time, guidance for other levels of government such as the sub-national levels could be considered.

¹ and related disclosures beginning 2013

Preliminary View 4

IPSASB guidance should recommend that long-term fiscal sustainability indicators be selected based on (a) their relevance to the entity, (b) the extent that the indicators meet the qualitative characteristics of financial reporting, and (c) their ability to describe the scale of the fiscal challenge facing the entity. It is also recommended that comparative information is provided and that the reasons for ceasing to report indicators, if this occurs, are disclosed.

Comment 4

We encourage the development of guidance that is flexible in its approach and can accommodate a range of government specific concerns relating to long-term fiscal sustainability such as mentioned in the preliminary view 4 noted above. It is our view, however, that as an initial step the guidance for long-term fiscal sustainability indicators be targeted to those that are meaningful at a national government level. Subsequently, guidance relating to indicators that are more relevant to other levels of government could be developed. We also agree that prior period comparative information be provided and that the reasons for ceasing to report indicators, if this occurs, are disclosed. In addition, we believe that adding a discussion of the relative advantages of each type of indicator of long-term fiscal sustainability would improve understandability. Further, disclosure of several complementary indicators may be necessary to appropriately convey fiscal sustainability information (e.g., scale of any fiscal sustainability challenge, the timing of the challenge, the size of policy actions required to achieve fiscal sustainability goals, etc.).

In addition to disclosure of indicators, we believe that the IPSASB should recommend including additional disclosures considered necessary to adequately communicate relevant information to assist the user in understanding and assessing the government's fiscal sustainability. Examples of such disclosures could include:

- A narrative discussion of the inherent limitations of projections, including uncertainty;
- Major factors expected to have a significant impact on the projections;
- Trends in historical and projected receipts and expenditures, including the period after the end of the projection period; and
- Costs of delays in making policy changes

Preliminary View 5

IPSASB guidance on long-term fiscal sustainability reporting in GPFR should recommend that the entity disclose any deviations from the principle that long-term fiscal sustainability projects are based on current policy; the basis on which projections of inflows from taxation and other material resource sources have been made, any other key assumptions underpinning long-term fiscal sustainability projections.

Comment 5

We believe that projections should be based on current policy and not based on future events. More specifically, we suggest that projections, including expenditures that are not individually projected, be based on reasonable assumptions about the future course of receipts and expenditures assuming the continuation of current policy without change. For example, expenditures that are not individually projected could be based on the historical trend in the growth of such expenditures, such as a constant relationship to inflation or GDP growth. We have concerns that, if current policy is not used as a basis for the long-term fiscal projections, assumptions may be selected that may inappropriately distort the long-term projections, particularly if they are proposed but not yet enacted policies. If IPSASB concludes that deviations were acceptable, we would concur that the guidance on long-term fiscal sustainability reporting in GPFR should recommend that the entity disclose any deviations from the principle that long-term fiscal sustainability projections are based on current policy and disclose the potential related effects as part of the sensitivity analysis. Also, we support disclosure of the basis on which projections of inflows from taxation and other material resource sources have been made, and any other key assumptions underpinning long-term fiscal sustainability projections such as policy, economic and demographic assumptions.

To be more informative to readers, we also encourage prior period comparative information and significant explanations for changes when year-by-year comparisons are displayed and that present values are calculated and illustrated when presenting long-term fiscal sustainability projections as well as discount rates used to calculate present value.

Preliminary View 6

IPSASB guidance on long-term fiscal sustainability reporting in GPFRs should recommend that the entity disclose time horizons for projections as well as the reason for modifying time horizons, discount rates, results of key sensitivity analyses, and steps taken to ensure that projections are reliable.

Comment 6

We agree that guidance on long-term fiscal sustainability reporting in GPFRs should recommend that the entity disclose time horizons for projections as well as reasons for modifying time horizons, discount rates, results of key sensitivity analyses, and steps taken to ensure that projections are reliable. In addition, we believe that the time horizon selected should, at a minimum, be sufficient to illustrate the government's long-term fiscal sustainability.

Preliminary View 7

IPSASB guidance on fiscal sustainability reporting in GPFR should recommend that (a) the underlying projections should have been prepared or updated within five years of the reporting date, and (b) the date of preparation should be disclosed.

Comment 7

We agree that the guidance on the underlying projections for preparation or being updated within five years of the reporting date and that the date of preparation should be disclosed is reasonable given the cost versus the benefit of preparing long-term projections. However, we would encourage more frequent projections to assist users in understanding whether and to what extent the government's financial condition is changing and to meet the accountability and decision-making objectives of financial reporting.

We thank you for the opportunity to provide comments on this important project.

Sincerely yours,

A handwritten signature in black ink that reads "Jeanette M. Franzel". The signature is written in a cursive style with a large, looping initial 'J'.

Jeanette Franzel
Managing Director
Financial Management and Assurance

IPSASB Consultation Paper 'Reporting on the Long-Term Sustainability of Public Finances'

response to consultation

30 April 2010

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.

Our ref: Responses/100430 SC0134

Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street, 4th Floor
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Submitted electronically to www.ifac.org

30 April 2010

Dear Stephenie Fox

IPSASB Consultation Paper

Reporting on the Long-Term Sustainability of Public Finances

CIPFA is pleased to present its comments on the proposals in this Exposure Draft, which have been reviewed by CIPFA's Accounting and Auditing Standards Panel.

We strongly support IPSASB's development of high quality standards for public sector financial reporting, whether through the Board's recent project to develop IFRS converged IPSASs or through wholly public sector specific IPSASs. In our response to the September 2008 IPSASB Conceptual Framework consultation paper, we also agreed that it is important to broaden the Framework to cover matters which go beyond a focus on financial statements. We agreed that fiscal sustainability and other public sector issues such as reporting on social benefits are important issues which should be properly explored.

CIPFA has already provided comments on IPSASB's March 2008 consultation on a proposed project brief on Long-Term Fiscal Sustainability, noting that

- developing this kind of information would inevitably range more widely than current financial reporting, particularly that which is within the main financial statements;
- appropriate reporting might need to reflect quite specific aspects of benefit programs, the specifics of taxation systems, and the nature of the dialogue between government and citizens;
- audit and verifiability considerations for this type of information might be expected to be rather different to standard assurances on financial statements.

We also suggested that the Board has set itself a very ambitious task. While we understand that some jurisdictions have already made progress in developing fiscal sustainability reporting, it remains to be seen whether standards or other internationally applicable guidance can be developed. The combination of estimation uncertainty with political and policy assumptions raises particular questions about how and whether preparers of financial reports can avoid bias, and avoid or manage the risks of an increase in the politicisation of financial reporting generally.

General comments

Overall we consider that the Consultation Paper has mapped out a practical basis on which to develop guidance.

However we are unsure whether the Consultation Paper is framed with mandatory guidance in mind, or whether this is still a matter to be determined. For example Preliminary View 1 suggests that fiscal sustainability information is 'necessary' to achieve

the objectives of financial reporting, which might be taken to imply that IPSASB should develop a mandatory standard. This somewhat contrasts with the use of 'recommend' and 'encourage' in other Sections of the paper, which might be taken to reflect the possibility of non-mandatory guidance, or guidance which incorporated a very substantial degree of flexibility. In line with our comments in 2008 we are not convinced that it is currently practical or appropriate to develop mandatory guidance.

Specific comments on the Preliminary Views

Preliminary View 1

The presentation of information on long-term fiscal sustainability is necessary to meet the objectives of financial reporting (accountability and decision-making) as proposed in the IPSASB Consultation Paper, "Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities," issued in September 2008

We agree that an awareness of fiscal sustainability issues is important context which is needed to gain an understanding of the financial statements and other financial reporting. Its relevance is clear, particularly at whole of government level and at other levels of government which have the capacity to levy taxes and to set tax rates with a view to funding future expenditures.

However, a view that specific information is 'necessary' might point to a requirement that mandatory standards should be developed. We would stress that including this information in financial reporting is clearly beneficial and extremely desirable, and we would not wish to discourage reporting of this type. We can also see that this information might be particularly beneficial in circumstances such as the current global financial crisis. However, we still have reservations over the suggestion that such information is necessary.

Preliminary View 2

IPSASB guidance should recommend that long-term fiscal sustainability information in GFPRs be presented either through:

- Additional statements providing details of projections; or*
- Summarized projections in narrative reporting*

In the light of our comments on Preliminary View 1, we would observe that some jurisdictions are likely to follow a different approach continue to prepare separate long-term fiscal sustainability reports in line with Model Three. Cross-references and summarised information relating to those reports might often be helpful to readers of GFPRs.

Having said this, we agree that Reporting Models One and Two as outlined in Preliminary View 2 are sensible starting points for presenting fiscal sustainability information in General Purpose Financial Reporting.

Preliminary View 3

IPSASB guidance should be based on the concept of the reporting entity and should provide recommended practice for consolidated reports presented by all levels of government

We agree that IPSASB guidance should be based on the concept of the reporting entity.

We agree that fiscal sustainability issues can arise at all levels, although we are not sure that it will always add value to report in situations where one tier of government is substantially financed by a higher tier. We agree that the principal focus should be on consolidated reports, rather than for individual entities which may, for example, not be in a position to fund the majority of their expenditure through the raising of taxes or other income generating activities which they directly control.

Preliminary View 4

IPSASB guidance should recommend that long-term fiscal sustainability indicators be selected based on

- (a) their relevance to the entity,*
- (b) the extent to which the indicators meet the qualitative characteristics of financial reporting, and*
- (c) their ability to describe the scale of the fiscal challenge facing the entity. It should also recommend that comparative information is provided and that the reasons for ceasing to report indicators, if this occurs, are disclosed*

We agree with these criteria for the selection of indicators by public sector entities which are reporting on long-term fiscal sustainability under IPSASB recommended guidance. We have considered whether in the interests of comparability, it might be preferable for IPSASB to encourage a more standardised format or preferred model for reporting. However, while this might be useful to international bodies and finance providers, we do not consider that comparability between reporting entities or jurisdictions should be a primary objective of this reporting.

We also accept the need to select indicators based on the extent to which they meet the qualitative characteristics. However, we consider there are unresolved issues in connection with verifiability of forward looking information which will need to be examined. Furthermore, while determining an assurance model for long-term fiscal sustainability reports falls outside the scope of the IPSASB consultation, inevitably such issues do arise. We suggest that due to the considerable degree of uncertainty surrounding economic and demographic data and the degree of judgement required it would be helpful if the IPSASB guidance were clear that information on long-term fiscal sustainability does not fall within the 'presents fairly' basis upon which the financial statements are prepared and audited.

Preliminary View 5

IPSASB guidance on long-term fiscal sustainability reporting in GFRs should recommend that the entity disclose:

- *Any deviations from the principle that long-term fiscal sustainability projections are based on current policy;*
- *The basis on which projections of inflows from taxation and other material revenue sources have been made;*
- *Any other key assumptions underpinning long-term fiscal sustainability projections; and*
- *Details of key aspects of governing legislation and regulation, and the underlying macro-economic policy and fiscal framework*

We agree with the disclosure of the above contextual information by public sector entities which are reporting on long-term fiscal sustainability. This is a difficult area, where it can be problematic even for the most well-intentioned of preparers to explain all of the economic and other assumptions embedded in reporting. Potentially quite complex disclosures will be necessary so that information on long-term fiscal sustainability is understandable to users, and the risk that this will confuse rather than enlighten will need to be managed.

Preliminary View 6

IPSASB guidance on long-term fiscal sustainability reporting in GFRs should recommend that the entity disclose:

- *Time horizons for fiscal sustainability projections presented or discussed in the GFRs as well as the reason for modifying time horizons and any published plans to modify those horizons;*
- *Discount rates, together with the reason for their selection;*
- *Results of key sensitivity analyses; and*
- *Steps taken to ensure that projections are reliable*

We agree that it is helpful to provide the above information on time horizons and related modelling parameters.

We would also observe that, while very long time horizons (e.g 75-100 years) may be chosen to avoid missing important future consequences, this is rather a specialised form of reporting and will generally be less robust than projections made over shorter timescales. In the light of probable changes to technology, society and governments over such long timescales, the projections might not be considered to be testable predictions, but more as a very specialised accountability indicator. While we accept that such long term projections are considered useful in some jurisdictions, in moving to an exposure draft it would be helpful if there were more clarity and explanation on this to help readers understand the nature, purpose and limitations of this reporting.

Preliminary View 7

IPSASB guidance on long-term fiscal sustainability reporting in GFRs should recommend that

- (a) the underlying projections should have been prepared or updated within five years of the reporting date, and*
- (b) the date of preparation or update should be disclosed*

We agree with the disclosure of information on currency and timeliness of reporting. The Board may also wish to consider whether to promote (but not compel) credibility checking on a more frequent basis than a five yearly cycle.

I hope these comments are a helpful contribution to the development an exposure draft of further guidance. If you have any questions about this response, please contact Steven Cain (e: steven.cain@cipfa.org.uk, t: +44(0)20 7543 5794).

Yours sincerely

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DAVID R. BEAN
Director of Research

April 30, 2010

Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
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Toronto, Ontario M5V 3H2 CANADA

Dear Ms. Fox,

Thank you for the opportunity to offer comments in response to the IPSASB Consultation Paper, *Reporting on the Long-Term Sustainability of Public Finances*, issued in November 2009. This response was prepared by the Governmental Accounting Standards Board's (GASB) staff. A draft of this response was provided to individual GASB members for their input. Official positions of the GASB are determined only after extensive due process and deliberation.

As you know, the GASB has a project on its current technical agenda on Economic Condition Reporting: *Fiscal Sustainability*; however, the GASB is not scheduled to begin its deliberations on this project until August 2010. Therefore, the GASB staff anticipates that both Boards may derive benefit from the deliberations and due process of the other, in their own respective projects.

Preliminary View 1—The presentation of information on long-term fiscal sustainability is necessary to meet the objectives of financial reporting (accountability and decision-making) as proposed in the IPSASB's Consultation Paper, "Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities," issued in September 2008 (Section Two).

The GASB staff agrees that the presentation of information on long-term fiscal sustainability is necessary to meet the objectives of financial reporting. As noted in IPSASB's Consultation Paper, *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*, an objective of general purpose financial reporting for government (GPFR) is to provide information about the reporting entity useful to users for accountability purposes; and making resource allocation, political, and social decisions. This overall objective agrees directly with GASB Concepts Statement No. 1,

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Objectives of Financial Reporting, which states in paragraph 76 that “Governmental financial reporting should provide information to assist users in (a) assessing accountability and (b) making economic, social, and political decisions.”

IPSASB’s Consultation Paper also sets forth the scope of financial reporting, which includes the provision of financial and nonfinancial information about, “prospective financial and other information about the reporting entity’s future service delivery activities and objectives, and the resources necessary to support those activities.” This scope agrees with GASB Concepts Statement No. 1 which indicates in paragraph 79 and 79a that, “Financial reporting should assist users in assessing the level of services that can be provided by the governmental entity and its ability to meet its obligations as they become due. Financial reporting should provide information about resources and obligations, actual and contingent, current and noncurrent.”

However, the GASB staff believes that the current IPSASB Consultation Paper on the *Reporting of the Long-Term Sustainability of Public Finances* can be enhanced by including reference to the IPSASB objectives and scope of financial reporting (subject to issuance of the objectives of the final objectives being issued before this project is completed).

Preliminary View 2—IPSASB guidance should recommend that long-term fiscal sustainability information in GPFRs be presented either through:

- **Additional statements providing details of projections; or**
- **Summarized projections in narrative reporting (Section Three).**

The GASB staff believes that guidelines provided on long-term fiscal sustainability information in GPFR’s should acknowledge that *both* additional statements providing details of projections and a narrative discussion and analysis of those summarized projections may be considered necessary to meet the objectives of financial reporting. Additional statements are not mutually exclusive of narrative information and neither may they be sufficient in and of themselves to communicate long-term fiscal sustainability information to users. Recommending inclusion of only additional statements, although providing comprehensive and detailed information, may not adequately communicate the relationship of this information to the fiscal sustainability of a government. Users need to understand this relationship in order to enhance their ability to assess the fiscal sustainability of a government. Conversely, recommending inclusion of only narrative reporting of information, although providing a conclusive overview of a government’s fiscal sustainability, may not provide the details for a user to assess and validate that conclusion.

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Preliminary View 3—IPSASB guidance should be based on the concept of the reporting entity and should provide recommended practice for consolidated reports presented by all levels of government (Section Four).

The GASB staff agrees that the IPSASB guidance should be based on the concept of the reporting entity and should provide recommended practice for consolidated reports presented by all levels of government. Because of the structure of government in the United States, reporting standards would not require the presentation of a consolidated government with the national and subnational governments being presented in the same reporting entity. Even if that were the case, the GASB staff believes that report should focus on the primary government and possibly those government business enterprises that generate their own revenues and have significant outstanding financial obligations and commitments. Therefore, we recommend that if the guidance in paragraph 4.4.2 is carried forward to the next due process document that discussion should be expanded to recognize the fact that the focus should be on the primary government and also note that there may be individual entities within the economic entity for which the recommended guidance should apply.

Preliminary View 4—IPSASB guidance should recommend that long-term fiscal sustainability indicators be selected on (a) their relevance to the entity, (b) the extent to which the indicators meet the qualitative characteristics of financial reporting, and (c) their ability to describe the scale of the fiscal challenge facing the entity. It should also recommend that comparative information is provided and that the reasons for ceasing to report indicators, if this occurs, are disclosed (Section Five).

The GASB staff agrees that IPSASB should not recommend a uniform set of fiscal sustainability indicators at this stage of the project. However, the GASB staff believes that the consultation paper does not provide adequate guidance for a preparer to be able to develop a set of relevant fiscal sustainability indicators. Although identifying four dimensions of fiscal sustainability within paragraph 5.3.1, the GASB staff does not believe that most preparers would be able to develop indicators addressing these dimensions. The consultation paper needs to further elaborate on the specific type of fiscal sustainability information necessary to be reported in order to assist users in making an assessment of a government's fiscal sustainability. For example, while the GASB does not establish specific indicators for SEA performance information in its Suggested Guidelines for Voluntary Reporting, *SEA Performance Information*, it does set

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forth and elaborates on four essential components that are necessary for inclusion in an SEA report for users to be able to assess the service efforts and accomplishments of a government. The GASB staff believes the application of a similar approach with fiscal sustainability information would assist preparers in identifying what types of indicators to include in their reporting of fiscal sustainability information.

The GASB staff believes that the qualitative characteristics are representative of the qualities that the reported fiscal sustainability information should possess. Although important, they do not identify the actual types of fiscal sustainability information that need to be reported. As a result, the qualitative characteristics are not the primary basis for selecting fiscal sustainability indicators. They should be considered after preliminary selection of the indicators to assure that the information within the indicators possesses the qualitative characteristics of financial reporting outlined in IPSASB's proposed Conceptual Framework.

Further, the GASB staff agrees that the indicators selected, when viewed comprehensively, need to describe the scale of the fiscal sustainability challenges facing a government. However, the consultation paper does not provide adequate guidance on how preparers can (1) select a set of fiscal sustainability indicators that when viewed comprehensively provide a representation of the scale of the fiscal challenges facing a government, and (2) communicate information on the overall scale of the fiscal challenges that will provide users with the ability to assess the fiscal sustainability of a government.

Finally, the GASB staff agrees that comparative information needs to be provided and that the reasons for ceasing to report indicators, if this occurs, need to be disclosed. To assess whether the reported fiscal sustainability information is improving, deteriorating, or remaining the same, users need comparative information such as indicators from earlier periods, and possibly targets established by the government, industry standards, or other similar governments. The types of comparative information reported may depend on issues such as the availability of relevant and reliable information, the purpose of the report, and the needs of the users. There are also many acceptable reasons for changing fiscal sustainability indicators and methodologies, such as the development of more accurate or timely indicators, changes in administration or leadership priorities, or shifts in other factors influencing results. If fiscal sustainability indicators are modified, replaced, or the manner of presentation is changed, then it is important to communicate to users that a change has taken place and the reasons for the change.

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Preliminary View 5—IPSASB guidance on long-term fiscal sustainability reporting in GPFs should recommend that the entity disclose:

- **Any deviations from the principle that long-term fiscal sustainability projections are based on current policy;**
- **The basis on which projections of inflows from taxation and other material revenue sources have been made;**
- **Any other key assumptions underpinning long-term fiscal sustainability projections; and**
- **Details of key aspects of governing legislation and regulation, and the underlying macro-economic policy and fiscal framework (Section Six).**

The GASB staff agrees that IPSASB guidance on long-term fiscal sustainability reporting in GPFs should recommend that the entity disclose: (1) any deviations from the principle that long-term fiscal sustainability projections are based on current policy; (2) the basis on which projections of inflows from taxation and other material revenue sources have been made; (3) any other key assumptions underpinning long-term fiscal sustainability projections; and (4) details of key aspects of governing legislation and regulation, and the underlying macro-economic policy and fiscal framework. However, the GASB staff believes that more clarification needs to be provided within the IPSASB guidance on what is meant by governing legislation and regulation. Paragraph 6.6.1. indicates that governing legislation and regulation “covers responsibilities for preparing and presenting reports and also the frequency of publishing the reports.” The GASB staff does not believe that this type of information is necessarily encompassed within governing legislation and regulation around the world. Paragraph 6.6.3. states that, “It is important to provide users with sufficient information on the underlying macro-economic policy and fiscal framework to allow them to interpret projected information.” However, the IPSASB guidance does not provide any description of what is meant by underlying macro-economic policy or fiscal framework. The GASB staff also believes that the two illustrations (Exhibit Nine) included within this guidance do not assist in providing preparers with clear examples of macro-economic policy and fiscal frameworks or how to communicate them.

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Preliminary View 6—IPSASB guidance on long-term fiscal sustainability reporting in GPFs should recommend that the entity disclose:

- **Time horizons for fiscal sustainability projections presented or discussed in the GPFs as well as the reason for modifying time horizons and any published plans to modify those horizons;**
- **Discount rates, together with the reason for their selection;**
- **Results of key sensitivity analyses; and**
- **Steps taken to ensure that projections are reliable (Section Seven).**

The GASB staff agrees that IPSASB guidance on long-term fiscal sustainability reporting in GPFs should recommend that the entity disclose time horizons for projections, discount rates and reasons for their selection, results of key sensitivity analyses, and the steps taken to ensure that projections are reliable. However, the GASB staff also believes that the consultation paper should recommend disclosure of all major assumptions used by a government in developing its long-term fiscal sustainability projections, including those used in the sensitivity analysis. While the consultation paper discusses the assumptions about the drivers of economic growth in paragraph 7.4.1 and therefore recognizes their importance, it does not specifically recommend their disclosure within a long-term fiscal sustainability report. The consultation paper is silent to any discussion on the assumptions related to the demand for services or changes in costs, which should not only be discussed, but also recommended for disclosure within a long-term fiscal sustainability report. The GASB staff also believes that internal changes in the methodologies used for calculating projections should also be disclosed, along with the reasons for those changes. For example, when calculating health care costs, a change in methodology could be accumulating costs by disaggregating age groups rather than by using the general population.

Preliminary View 7—IPSASB guidance on long-term fiscal sustainability reporting in GPFs should recommend that (a) the underlying projections should have been prepared or updated within five years of the reporting date, and (b) the date of preparation or update should be disclosed (Section Seven).

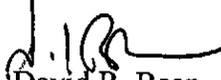
The GASB staff agrees with the IPSASB guidance recommending that the date of preparation or update of the fiscal sustainability information should be disclosed within a long-term fiscal sustainability report. In doing so, the risk of lessening the relevance of the fiscal sustainability information is reduced. The GASB staff, however, disagrees with the IPSASB guidance recommending that the underlying projections should have been

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prepared or updated within five years of the reporting date. The GASB staff believes that projections need to be updated each time a fiscal sustainability report is issued. Doing otherwise, could lead to information being released to users that is not relevant, comparable, or reliable. For example, under the guidance recommended, New Zealand, which issues a report every four years, could possibly issue two reports using the same underlying projections, covering an eight year time horizon. It would also be possible for a long-term fiscal sustainability report to be issued using four-year-old projections, when major known changes in various assumptions have occurred.

Thank you for considering our comments. If you have any questions, please contact me at 1-203-956-5244.

Sincerely,



David R. Bean

Technical Director
International Public Sector Accounting Standards Board (IPSASB)

By e-mail

TECH-CDR-913

30 April 2010

REPORTING ON THE LONG-TERM SUSTAINABILITY OF PUBLIC FINANCES - CONSULTATION

1. ACCA has been actively involved in public sector financial management issues over a number of years and we warmly welcome the opportunity to respond to the above consultation. ACCA supports IPSASB's work in the development of high quality standards for the public sector. In our view this consultation is extremely pertinent given the size of government debt around the world as a result of the global economic crisis. Many countries are facing fiscal challenges that could threaten their fiscal futures.
2. ACCA is a global body for professional accountants, supporting 140,000 members and 404,000 students throughout their careers, and providing services through a network of 83 offices and centres. A significant number of our members work within government and audit institutions around the world and our response to this consultation is one from an international perspective.

GENERAL COMMENTS

3. Generally we consider the consultation paper provides a useful basis on which to develop future guidance. We have a few reservations, particularly in respect to the practicalities of implementation.
4. Reporting on long-term financial sustainability will be an aspirational goal for many countries, particularly for non-OECD countries. These countries are still grappling with cash accounting let alone implementing the proposals set out in this consultation. The OECD reported that 16 out of 58 OECD countries had adopted accruals accounting and 34 were on a cash basis of accounting. The majority of eastern and South African countries are near to adopting and/or complying with the cash accounting standard. This is, of course, not a reason for countries not to adopt long-term financial sustainability reporting, but perhaps it gives an indication of how this will be prioritised.
5. We would question whether there is the political will to introduce long-term financial reporting by some governments. This is not something that the IPSASB can address, but should be aware of, particularly, when setting frameworks and managing expectations about implementation. The consultation also fails to take account of the skills required to do it and the cost of implementation. In the developing world there is a skills shortage of finance professionals and a key priority is for national governments, institutions and the donor community is to build financial capacity. In our response to the recent consultation on the 'cash basis of accounting standard' we reported that "the costs and resources required implementing the standard, the availability of qualified accountants in the public sector and cultural resistance to change are key issues for developing countries". In our view these issues will equally apply to the implementation of long-term financial sustainability reporting and the proposal does little to address implementation issues.
6. You state in page 3 that fiscal projections have historically been carried out by professional groups such as economists, statisticians and budget and policy specialists with no mention of the accounting profession. Given the complexity of the issues involved which not only cover financial implications but also social and political ones, accountants will have to develop a wider set of skills which include a detailed understanding of economic models and statistical methodologies. We would also question why the IPSASB now sees this area as falling within its domain, particularly, as traditional standard setting has been for reporting on retrospective information.

7. However, we recognise that a number of OECD countries are trying to become better prepared for their fiscal futures and have experimented with preparing long-term fiscal projections with various success. The OECD has already undertaken a substantial amount of work in this area which highlights key areas of progress.

SPECIFIC COMMENTS ON PRELIMINARY VIEWS

Preliminary View 1

The presentation of information on long-term financial sustainability is necessary to meet the objectives of financial reporting (accountability and decision-making) as proposed in the IPSASB's consultation paper, "conceptual framework for general purpose financial reporting by public sector entities" issued in September 2008

8. In principle we support the proposal that information on the long-term financial sustainability of national governments should be reported to increase accountability, transparency and support effective decision-making. There is little doubt that long-term fiscal reporting can help countries be better prepared for their fiscal futures. We are also very supportive of the development of a public sector conceptual framework in which this type of reporting would sit. It provides a practical focus for reporting on long-term financial sustainability.
9. It is hard to disagree with the premise that information about the long-term sustainability of public finances is of great interest to the public of each nation. Also, supra-national organisations will have a particular interest such as the European Union, OECD, World Bank and International Monetary Fund.
10. In addition, in the absence of a global definition on long-term financial sustainability we agree with your preferred definition *'the ability of government to meet its service delivery and financial commitments both now and in the future'*. As well as recognising two dimensions of long-term financial sustainability it will be easily understood by the public.

Preliminary View 2

IPSASB guidance should recommend that long-term financial sustainability information in GPFRs be presented either through:

- ***additional statements providing details of projections***
- ***summarised projections in the narrative reporting.***

11. We would support the IPSASB's view that because the form and content of long-term fiscal sustainability is still evolving the IPSASB shouldn't prescribe the approach to be taken on reporting at this point in time.
12. It is not clear within your consultation that you are proposing a separate report for reporting on long-term financial sustainability. It appears that you are suggesting that it should be part of the general purpose financial reporting statement as described in Exhibit 2 (p15). In our view it should form part of a separate report which should be subject to some form of verification. The latter is discussed further in paragraph 20. Our reasoning behind this is partly based on the fact that the data in the fiscal sustainability report is much less reliable and verifiable than what is reported in the general purpose financial statements (GPFs) and general purpose financial reports (GPFRs).

Preliminary View 3

IPSASB guidance should be based on the concept of the reporting entity and should provide recommended practice for consolidated reports presented by all levels of government.

13. In principle we would agree that long-term fiscal sustainability reporting should be required at the sub-national levels to meet the objectives of accountability, transparency and decision-making.
14. To counter balance this we have some reservations. The consultation papers draws attention to the fact that countries have differences in reporting on boundaries e.g. only a minority of governments report long-term fiscal sustainability based on the control concept governing the GPFs. This means that if long-term fiscal sustainability reporting was prepared for the same reporting entity as for GPFRs in some countries local government would be ignored. The 'national accounts' definition might offer a better solution to reporting as it takes account of general government plus public corporations.

15. It is also questionable as to how far to drill down to sub-national level. It is critical to know when to draw the line. In the UK for example the financial reports do cover the whole of the public sector (including local government) therefore reporting at any lower level would serve no purpose. However, in a federal situation such as in the United States it might make sense for an autonomous state to produce a separate long-term fiscal sustainability report, whilst the federal government produces something different.

Preliminary View 4

IPSASB guidance should recommend that long-term fiscal sustainability indicators be selected based on (a) their relevance to the entity (b) the extent to which the indicators meet the qualitative characteristics of financial reporting, and (c) their ability to describe the scale of the fiscal challenge facing the entity. It should recommend that comparative information is provided and that the reasons for ceasing to report indicators, if this occurs, are disclosed.

16. We believe for the reasons clearly set out in the consultation document that the IPSASB is right not to recommend a universal uniform set of indicators at this stage. However, a small select number of indicators could be recommended to jurisdictions, such as debt to GDP. This would be useful for comparability purposes and would help to avoid governments 'cherry picking' what they report. We agree that countries should set out the reasons for selecting its indicator set as part of a qualitative statement.
17. We also agree that it would be good practice to report comparative information and to disclose reasons for de-selecting/ selecting indicators. However, countries should avoid where possible frequent changes to its indicator set.
18. One of the debates within the UK when discussing accounting policies for social security payments was whether to include a qualitative statement along the lines prepared for the USA statements of social insurance (SOSIs). HM Treasury Ministers did not agree because it argued that the Government was cherry picking items which to report. This is one example of the obvious dangers of providing flexibility to countries on which indicators to report against. It is difficult to see how to overcome this without additional guidance.

Preliminary View 5

IPSASB guidance on long-term fiscal sustainability reporting in GPFs should recommend that the entity disclose:

- ***Any deviations from the principle that long-term sustainability projections are based on current policy;***
 - ***The bases on which projections of inflows from taxation and other material revenue sources have been made;***
 - ***Any other key assumptions underpinning long-term fiscal sustainability projections; and***
 - ***Details of key aspects of governing legislation and regulation, and the underlying macro-economic policy and fiscal framework reasons for ceasing to report indicators, if this occurs, are disclosed.***
19. We agree with the set of principles set out above for reporting on long-term fiscal sustainability. For example, we would consider it good practice for disclosures to assume that current policy continues for significant expenditures and that future events are incorporated in assumptions. We agree that all material programs and transactions must be reflected.
20. One area which has been omitted in the consultation is the question of audit. Is it really appropriate for auditors to comment on long-term financial sustainability? The consultation doesn't address this issue. Given the highly contingent nature of long-term fiscal forecasts, if they are subject to audit it could be construed as auditors commenting on 'political policy'. Also, the costs and consequences for implementation by governments have not at all been considered as part of this consultation. Perhaps this should be addressed in future consultations on this issue.

Preliminary View 6

IPSASB guidance on long-term fiscal sustainability reporting in GPFs should recommend that the entity disclose:

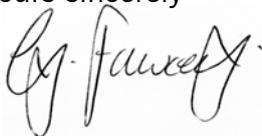
- ***Time horizons for fiscal sustainability projections presented or discussed in the GPFs as well as the reason for modifying time horizons and any published plans to modify those horizons;***
 - ***Discount rates together with the reason for selection;***
 - ***Results of key sensitivity analyses; and***
 - ***Steps taken to ensure projections are reliable.***
21. We agree that time horizons need to be presented and discussed. As you rightly point out a number of material programs such as social security, health and pensions, stretch over considerable periods of time into the future >25 years. Our caveats are that when presenting data over significant time periods it is more than likely that it may well serve to provide a distorted picture because of the uncertainty involved rather than a meaningful one to the user of the financial statements. It is also unlikely that they will match the actual outcome. Given these factors it is questionable how useful these statements really are to the user of financial statements.
22. You recognise that there are a variety of approaches to applying discount rates. In our view there is 'no one size fits all' and because of that we would agree with your proposal that governments should disclose the discount rate applied and the rationale for applying it.
23. We agree that sensitivity analysis is an important tool to demonstrate how sensitive a policy is to changes in economic and demographic changes. This is already used extensively in policy decision making in the UK and is recommended accounting practice.

Preliminary View 7

IPSASB guidance on long-term fiscal sustainability reporting in GPFs should recommend that (a) the underlying projections should have been prepared or update within five years of the reporting date; and (b) the date of preparation or update should be disclosed.

24. We agree that the underlying projections should be updated and reviewed. Three to five years would be the most appropriate time periods. However, going back to our original points in question 2 we do not agree that long-term sustainability reporting should be within the GPFs.
25. We hope you find our response useful and are more than happy to provide further clarification on any of the points made. Please feel free to contact Gillian Fawcett (Head of Public Sector) on tel. 02072395674 or by e-mail, Gillian.fawcett@accaglobal.com

Yours sincerely



Gillian Fawcett
(Head of Public Sector)



30 April 2010

Ms Stephenie Fox
Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street, 4th Floor
Toronto, Ontario M5V 3H2 CANADA

Dear Ms Fox

**CONSULTATION PAPER – ‘REPORTING ON THE LONG-TERM
SUSTAINABILITY OF PUBLIC FINANCES’**

Attached is the Australasian Council of Auditors-General (ACAG) response to the Consultation Paper referred to above.

The views expressed in this submission represent those of all Australian and New Zealand members of ACAG.

The opportunity to comment is appreciated and I trust you will find the attached comments useful.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Simon O'Neill', with a stylized flourish at the end.

Simon O'Neill
Chairman
ACAG Financial Reporting and Auditing Committee

cc: Mr Kevin Stevenson, Chairman, Australian Accounting Standards Board

CONSULTATION PAPER *REPORTING ON THE LONG-TERM SUSTAINABILITY OF PUBLIC FINANCES*

ACAG has reviewed the consultation paper *Reporting on the Long-Term Sustainability of Public Finances* issued by the International Public Sector Accounting Standards Board (IPSASB) and provides the following comments.

Overall comment

ACAG welcomes the IPSASB's project to develop guidance for reporting on the long-term sustainability of public finances. We consider such information to be of significant public interest and consider that the proposals will result in improvements to the financial reporting of governments.

We note that both the IPSASB and the International Accounting Standards Board (IASB) are considering the scope of general purpose financial reporting as part of their respective projects on the conceptual framework. At this stage, neither Board has concluded whether prospective financial information falls within the scope of general purpose financial reports (GPFRs). The outcomes of these projects may impact any guidance developed by the IPSASB on the reporting of long-term fiscal sustainability. However, ACAG considers that the IPSASB should not wait until these projects are concluded before developing guidance in relation to reporting on the long-term sustainability of public finances.

Specific comments on preliminary views

- 1. The presentation of information on long-term fiscal sustainability is necessary to meet the objectives of financial reporting (accountability and decision-making) as proposed in the IPSASB's Consultation Paper, "Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities," issued in September 2008 (Section Two).***

ACAG agrees that the presentation of information on long-term fiscal sustainability would contribute to meeting the objectives of financial reporting as proposed in the IPSASB Consultation Paper *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*.

In our response to that Consultation Paper, ACAG supported the preliminary view that the objectives of financial reporting by public sector entities are to provide information about the reporting entity useful to users of general purpose financial reports (GPFRs) for accountability purposes and making resource allocation, political and social decisions.

ACAG also supported the preliminary view that the scope of financial reporting encompasses the provision of financial and non-financial information about, among other factors, prospective financial and other information about the reporting entity's future service delivery activities and objectives, and the resources necessary to support those activities.

However, we do not consider that the presentation of information on long-term sustainability is necessary to meet the objectives of financial reporting. There are two reasons to support this view.

Firstly, the objectives of financial reporting presented in the consultation paper on the conceptual framework relate to all public sector entities. However, information on long-term sustainability is likely to be presented only at the whole-of-government level (which in Australia may be at the federal, state and territory, or local government level and in New Zealand at the national or local government level). By stating that the presentation of such information is necessary to meet the objectives of financial reporting, it could indicate that individual entities that do not present such information are not meeting these objectives.

Secondly, the time and cost involved to prepare and update information on long-term sustainability may be prohibitive for it to be presented for each annual reporting period. Governments may choose to present information on long-term sustainability less frequently (for example, once every three years) after consideration of user needs. In particular, there may be little value in preparing and presenting information on long-term sustainability annually because the assumptions and projections would not change significantly from year to year, unless there is a significant change in policy. In such circumstances, the view that presenting information on long-term sustainability is necessary to meet the objectives of financial reporting could indicate that these objectives are not being met in the intervening period.

2. *IPSASB guidance should recommend that long-term fiscal sustainability information in GPFs be presented either through:*

- *Additional statements providing details of projections; or*
- *Summarized projections in narrative reporting (Section Three).*

ACAG agrees with this preliminary view. Entities should have a choice as to whether Model One (additional statements providing details of projections) or Model Two (summarized projections in narrative reporting) is most appropriate to meet the qualitative characteristics of financial information and the information needs of users. However, ACAG recommends that the IPSASB guidance should require entities to clearly differentiate prospective financial information from historical financial information to avoid confusion by users.

The IPSASB expresses the view that Model Three (cross-references in GPFs to other reports addressing long-term fiscal sustainability) is inappropriate as reference alone to special long-term sustainability reports does not provide users with the information they need for decision-making and accountability purposes. ACAG recommends that the IPSASB should clarify the extent to which it may be appropriate to include cross-references to such special long-term sustainability reports when reporting long-term fiscal sustainability information under Model One or Model Two.

We acknowledge that paragraph 2.3.3 of the Consultation Paper *Long-Term Sustainability of Public Finances* states that the IPSASB has no current expectation that broader information within the scope of general purpose financial reports (GPFs) will be published in a single report that also includes general purpose financial statements (GPFs), and that such information may be published in a number of separate reports. We recommend that this distinction is made clear in any guidance statement developed on the long-term sustainability of public finances.

3. *IPSASB guidance should be based on the concept of the reporting entity and should provide recommended practice for consolidated reports presented by all levels of government (Section Four).*

ACAG agrees with this preliminary view. ACAG is of the view that developing guidance for application by national governments only would be inappropriate. Information on long-term sustainability would be of public interest at the national, state and territory, and local government levels in Australia, and at the national and local government levels in New Zealand.

ACAG agrees that information on long-term sustainability should be presented at the whole-of-government level. However, governments should have flexibility in how this information is presented. For example, in Australia, budget estimates are only prepared for the general government sector (GGS), which excludes entities within the public financial corporations (PFC) and public non-financial corporations (PNFC) sectors. Therefore, it may be also be appropriate to allow additional information on long-term sustainability for the GGS, the PFC sector and the PNFC sector to be presented separately, rather than aggregated at the whole-of-government level.

However, ACAG agrees that the boundary for which information on long-term sustainability is presented in the GPFER should not be broader than the boundary used to prepare the general purpose financial statements.

4. *IPSASB guidance should recommend that long-term fiscal sustainability indicators be selected based on (a) their relevance to the entity, (b) the extent to which the indicators meet the qualitative characteristics of financial reporting, and (c) their ability to describe the scale of the fiscal challenge facing the entity. It should also recommend that comparative information is provided and that the reasons for ceasing to report indicators, if this occurs, are disclosed (Section Five).*

ACAG agrees that IPSASB guidance should recommend that long-term fiscal sustainability indicators be selected based on the extent to which the indicators meets the qualitative characteristics of financial reporting (which includes relevance) and their ability to describe the scale of the fiscal challenge facing the entity. We agree that a uniform set of indicators should not be recommended.

ACAG agrees that the IPSASB guidance should also recommend that comparative information is provided and that the reasons for ceasing to report indicators, if this occurs, are disclosed. We consider such inclusions necessary to meet the qualitative characteristics of understandability and comparability.

ACAG considers that the qualitative characteristic “verifiability” relates to historical financial information and that this characteristic may be of little relevance to the reporting of prospective financial information. ACAG recommends that each of these characteristics and their applicability to the reporting of prospective financial information should be considered by the IPSASB as part of the conceptual framework project.

5. IPSASB guidance on long-term fiscal sustainability reporting in GFRs should recommend that the entity disclose:

- *Any deviations from the principle that long-term fiscal sustainability projections are based on current policy;*
- *The basis on which projections of inflows from taxation and other material revenue sources have been made;*
- *Any other key assumptions underpinning long-term fiscal sustainability projections; and*
- *Details of key aspects of governing legislation and regulation, and the underlying macro-economic policy and fiscal framework (Section Six).*

ACAG agrees with this preliminary view.

At paragraph 6.6.3, the consultation paper highlights the importance of disclosing sufficient information on the underlying macro-economic policy and fiscal framework, but acknowledges that there is a risk such information will be overly detailed and undermine understandability. The IPSASB states that it may therefore be appropriate to cross-reference other publicly available reports in the GFRs. This is at odds with the IPSASB's view in Section 3 of the CP that Model Three is inappropriate as cross-references to other reports do not provide users with the information they need for decision-making and accountability purposes. In developing guidance, the IPSASB should consider and clarify to what extent cross-references to other reports would be appropriate to meet the information needs of users.

6. IPSASB guidance on long-term fiscal sustainability reporting in GFRs should recommend that the entity disclose:

- *Time horizons for fiscal sustainability projections presented or discussed in the GFRs as well as the reason for modifying time horizons and any published plans to modify those horizons;*
- *Discount rates, together with the reason for their selection;*
- *Results of key sensitivity analyses; and*
- *Steps taken to ensure that projections are reliable (Section Seven).*

ACAG agrees with this preliminary view. Some additional comments in relation to each of these disclosure items are provided below.

ACAG believes that the IPSASB's guidance should emphasise the inherent uncertainty that exists for very long-term time horizons, such as 75 years or more. Where fiscal projections are included for such long-term time horizons, the guidance could require projections for shorter periods making up this very long-term horizon, such as 10, 25 and 50 years. ACAG recommends that the IPSASB guidance should recommend that entities explicitly disclose the inherent limitations of such projections.

In relation to discount rates, the IPSASB guidance should explicitly require disclosure of the type of discount rate(s) used and the quantum. The recommendation to disclose discount rates could be interpreted as requiring disclosure only of the type of discount rate and not the actual percentage used in determining the projections. Where the type of discount rate used differs

from the discount rate applied in the preparation of the general purpose financial statements, the guidance should require disclosure of the reason why the discount rates vary.

ACAG agrees that the disclosure of sensitivity analysis would provide users with useful information for decision-making. In paragraph 7.4.3 of the CP, the IPSASB's preliminary view is "that the results of any sensitivity analysis should be disclosed to provide better information on the scale of the fiscal challenges faced." This implies that sensitivity analysis need only be disclosed when the entity has prepared such analysis. ACAG considers that disclosure of such information should not be limited to those entities that have prepared such information. Instead, the IPSASB guidance should recommend the preparation and disclosure of key sensitivity analysis.

ACAG notes that the IPSASB is of the view that the need for, level and extent of assurance is a matter for preparers to form a judgment on in conjunction with their auditors. The current auditing standard applicable in Australia, AUS 804 *The Audit of Prospective Financial Information*, states that auditors may only report on the reasonableness of the assumptions on which the prospective financial information is based and that the auditor ordinarily provides only a moderate level of assurance by issuing a statement of negative assurance on best-estimate assumptions. In addition, the auditor does not express an opinion on hypothetical assumptions. As projections on long-term sustainability would be prepared on the basis of a mixture of best-estimate and hypothetical assumptions, auditors would be precluded from issuing any type of opinion on such information under the requirements of this auditing standard. This highlights the importance of entities disclosing steps taken to ensure that projections are reliable.

ACAG recommends that the IPSASB guidance should also require that information on long-term sustainability is clearly demarcated from audited financial information included in the general purpose financial statements. Preparers should clearly indicate that the projections are outside the scope of the audited financial report and clearly state that such information has not been audited.

7. IPSASB guidance on long-term fiscal sustainability reporting in GPFRs should recommend that (a) the underlying projections should have been prepared or updated within five years of the reporting date, and (b) the date of preparation or update should be disclosed (Section Seven).

ACAG agrees that the IPSASB guidance should recommend that the date of preparation or update be disclosed, given that there is a potential mismatch between the reporting date and the frequency with which fiscal projections may be made.

ACAG recommends that the IPSASB guidance should state that the underlying projections should meet the qualitative characteristics of relevance and timeliness. We consider that these characteristics should be the overarching principles applied in determining the timing of preparation and updating of the underlying projections, rather than the inclusion of a benchmark. However, IPSASB guidance should go on to state that the underlying projections should have been prepared or updated within five years of the reporting date, at a maximum, to meet these qualitative characteristics.



3 May 2010

Ms Stephenie Fox
Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West
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Ontario M5V 3H2
CANADA

Submitted to: www.ifac.org

Dear Stephenie

Reporting on the Long-Term Sustainability of Public Finances

The Financial Reporting Standards Board (FRSB) of the New Zealand Institute of Chartered Accountants is pleased to submit its comments on the IPSASB's Consultation Paper *Reporting on the Long-Term Sustainability of Public Finances*. These comments are set out in an Appendix to this letter.

The FRSB considers that information on the long-term sustainability of public finances (henceforth referred to as information on long-term fiscal sustainability, or LTFS) is critical in providing a broader context for users of a government's general purpose financial statements, particularly for those items which may have major implications for a government's long-term fiscal position but which are not recognised as liabilities in the financial statements. The FRSB therefore considers the IPSASB should give a high priority to this project.

However, the FRSB does not feel that there is currently general agreement amongst financial reporting standards setters and users about the respective boundaries of general purpose financial reporting and reporting on LTFS and has reservations about whether all of the information presently included in current (and possibly future) LTFS reporting falls within the scope of general purpose financial reporting. The FRSB strongly encourages the IPSASB to address the boundaries of general purpose financial reporting and reporting on LTFS in the context of its conceptual framework project. The FRSB supports the development by IPSASB of guidance on fiscal sustainability reporting at least in the short term, but would encourage the IPSASB to strive to identify the financial reporting aspects of such reporting and those aspects that should remain the responsibility of others.

The FRSB notes that LTFS reporting is an evolving area and would be reluctant for any guidance developed by the IPSASB to constrain the ongoing development of these reports.

As noted in the Consultation Paper, both central government and local governments within New Zealand are required by legislation to prepare public reports that provide information on LTFS. These reports are published separately from the general purpose financial statements of these entities. The importance of this information and the right of constituents to this information has therefore been acknowledged by New Zealand legislators.

If you have any queries or require clarification of any matters in this submission, please contact Joanne Scott (joanne.scott@nzica.com) in the first instance, or me.

Yours sincerely

A handwritten signature in black ink that reads "Joanna Perry". The signature is written in a cursive style with a long horizontal stroke at the end.

Joanna Perry
Chairman – Financial Reporting Standards Board

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New Zealand

Appendix – FRSB comments on Reporting on the Long-Term Sustainability of Public Finances

Preliminary Views, background and draft responses

PV1. The presentation of information on long-term fiscal sustainability is necessary to meet the objectives of financial reporting (accountability and decision-making) as proposed in the IPSASB's first Consultation Paper, "Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities", issued in September 2008 (Section Two).

1. In its April 2009 submission on the IPSASB's Consultation Paper on phase 1 of its Conceptual Framework project, the FRSB recommended that the scope of financial reporting should be limited to include only information that is best communicated through general purpose financial reports. In particular, the FRSB recommended that the amount of non-financial and prospective information be limited to information that is central to assessing the entity's future objectives and service delivery activities as well as the resources necessary to support those activities.
2. In that submission, the FRSB also commented that (i) there may be some overlap between 'additional information' presented in the context of annual and other general purpose financial reports and 'other information' and (ii) that prospective financial information included within 'additional information' may contain elements of economic and statistical data which is also presented in reports that would be regarded as 'other information' – ie outside the scope of general purpose financial reporting.
3. A number of factors give the FRSB reservations about forming any conclusions on this preliminary view. These include:
 - the difficulty of identifying the respective boundaries of general purpose financial reporting and information on LTFS;
 - the fact that information on LTFS is likely to be broader than the type of financial information usually found in general purpose financial statements;
 - the difficulties of summarising information on LTFS for use in another document; and
 - the fact that this is an evolving area of reporting, even for those countries that currently produce such reports. Such reports are used as a communication tool to highlight the fiscal challenges facing a government and the options available to it in dealing with those challenges. The FRSB would be reluctant for any future guidance to constrain the ongoing development of these reports.
4. In relation to the first point above, the FRSB would strongly encourage the IPSASB to address the boundaries of general purpose financial reporting and reporting on LTFS in the context of its conceptual framework project.
5. Despite the concerns noted above, the FRSB agrees that this is an important topic and supports the IPSASB in considering issues associated with information on LTFS and improving the quality of that information. Rather than developing guidance on the form or contents of possible additional statements, the FRSB considers that guidance on the principles that should underpin the development of information on LTFS and appropriate disclosures may be a more useful approach for the IPSASB to consider. Our comments on PV6 are also relevant in this regard.
6. The FRSB also notes that some have concerns about the appropriateness of standard setters considering developing guidance on LTFS because of the prospective nature of that information. The FRSB does not share those reservations and the mere fact that LTFS information is prospective has not influenced the FRSB's comments on this PV.

PV2. IPSASB guidance should recommend that long-term fiscal sustainability information in GPFRs be presented either through:

- Additional statements providing details of projections; or
- Summarized projections in narrative reporting (Section Three).

7. Please refer to our comments on PV1.

PV3. IPSASB guidance should be based on the concept of the reporting entity and should provide recommended practice for consolidated reports presented by all levels of government (Section Four).

8. The FRSB supports the view that IPSASB guidance should provide recommended practice for consolidated reports prepared by whole-of-government controlling entities. The FRSB also generally supports the view that IPSASB guidance should be based on the concept of the reporting entity. However, there may be cases in which a government wishes to publish information on the LTFS for components of the whole-of-government reporting entity.

PV4. IPSASB guidance should recommend that long-term fiscal sustainability indicators be selected based on (a) their relevance to the entity, (b) the extent to which the indicators meet the qualitative characteristics of financial reporting, and (c) their ability to describe the scale of the fiscal challenge facing the entity. It should also recommend that comparative information is provided and that the reasons for ceasing to report indicators, if this occurs, are disclosed (Section Five).

9. The FRSB supports PV4. The FRSB considers that an entity should have regard to the qualitative characteristics, including relevance, in the preparation of all information in a general purpose financial report.

PV5. IPSASB guidance on long-term fiscal sustainability reporting in GPFRs should recommend that the entity disclose:

- Any deviations from the principle that long-term fiscal sustainability projections are based on current policy;
- The basis on which projections of inflows from taxation and other material revenue sources have been made;
- Any other key assumptions underpinning long-term fiscal sustainability projections; and
- Details of key aspects of governing legislation and regulation, and the underlying macro-economic policy and fiscal framework (Section Six).

10. The FRSB generally supports the inclusion of the proposed disclosures in any forthcoming IPSASB guidance.

11. The FRSB strongly supports the disclosure of key assumptions underlying fiscal sustainability projections, including those assumptions identified by the IPSASB. In addition, the FRSB considers that IPSASB guidance should recommend the disclosure of the rationale for key assumptions.

12. The FRSB acknowledges that information on LTFS would be more comparable across jurisdictions if the underlying key assumptions, such as the use of current policy as the basis for making projections, were the same. However, the FRSB notes that current practice regarding the use of current policy varies across jurisdictions and that there may be valid reasons why a government would elect to incorporate the impact of certain future policies. Although the FRSB supports the IPSASB PV that an entity disclose any deviations from the principle that long-term fiscal sustainability projections are based on current policy, the FRSB considers that all entities should disclose the assumptions regarding current policy and the rationale for those assumptions.

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| <p>PV6. IPSASB guidance on long-term fiscal sustainability reporting in GPFs should recommend that the entity disclose:</p> <ul style="list-style-type: none"> • Time horizons for fiscal sustainability projections presented or discussed in the GPFs as well as the reason for modifying time horizons and any published plans to modify those horizons; • Discount rates, together with the reason for their selection; • Results of key sensitivity analyses; and • Steps taken to ensure projections are reliable (Section Seven). |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
13. Consistent with its comments on PV5, the FRSB supports PV6, particularly the preparation and disclosure of key sensitivity analyses. For example, the FRSB considers that it is essential that the sensitivity of the information to differing projected economic conditions and population age be disclosed.
 14. The FRSB supports the disclosure of information about the discount rates used in preparing information on LTFS. Rather than requiring disclosure of the actual discount rates used, the FRSB would support disclosure of the basis on which the discount rate has been determined (consistent with existing requirements in IPSAS 25 *Employee Benefits*).
 15. The final bullet point in PV6 proposes the disclosure of "Steps taken to ensure projections are reliable". The FRSB prefers the wording in the CP's Executive Summary which refers to "the steps taken to enhance the reasonableness of assumptions." The FRSB also supports the discussion in section 7.5 of the Consultation Paper which discusses reliability, in the context of information on LTFS, and states "the projections need to be reasonable and realistic, rather than an accurate prediction of the future". The FRSB acknowledges that the application of qualitative characteristics to information on LTFS, including reliability can be difficult. The following comments discuss the FRSB's efforts in developing principles to assist preparers in selecting reasonable and appropriate assumptions and enhancing the reliability of prospective financial information.
 16. In developing a domestic financial reporting standard, *FRS-42 Prospective Financial Statements*¹, the FRSB grappled with the issue of how to accommodate the uncertainty associated with prospective financial information whilst still setting a high benchmark in terms of the expected quality of prospective financial information. *FRS-42* establishes requirements for the preparation and presentation of general purpose prospective financial statements and is applied by local authorities in preparing financial statements over a ten year period. Requirements of *FRS-42* which are pertinent when considering the reliability of prospective financial information include:
 - the principle of best information: "An entity shall use the best information that could reasonably be expected to be available at the time prospective financial statements are prepared in determining the assumptions and information used in the preparation of the prospective financial statements" (paragraph 13);
 - the principle that prospective financial information be reasonable and supportable: "Information in prospective financial statements shall be reasonable and supportable and faithfully represent the assumptions and information on which the statements are based" (paragraph 14);
 - application of the qualitative characteristics, including reliability. In discussing reliability the standard notes that "The reliability of prospective financial statements is affected by the appropriateness of the assumptions and the sources of uncertainty. Users should be able to assess the reliability of prospective financial statements and identify the factors that make the statements more or less reliable" (paragraph 17);
 - requirements to enhance the appropriateness of assumptions: "Assumptions shall be based on the best information that can reasonably be expected to be available to the entity, be consistent among themselves, be consistent with the current plans of the entity to the extent that this is relevant, and be applied consistently. An entity shall have a reasonable and supportable basis for the determination of assumptions underlying prospective financial statements" (paragraph 18);

¹ *FRS-42* is available at www.nzica.com

- disclosures of bases for assumptions, risks and uncertainties (paragraphs 47-59): The Standard requires disclosure of:
 - (a) the entity's operations and activities;
 - (b) the purpose for which the prospective financial statements have been prepared;
 - (c) significant assumptions;
 - (d) any changes to the entity's existing business;
 - (e) the bases on which the significant assumptions have been prepared, including the principal sources of information from which they have been derived;
 - (f) the extent to which actual events and transactions have been reflected in the prospective financial statements;
 - (g) the factors that may lead to a material difference between the prospective financial statements and the actual financial results presented in historical financial statements in future reporting periods;
 - (h) the assumptions made in relation to those sources of uncertainty and the potential financial effect of the uncertainty on the prospective financial statements;
 - (i) significant accounting policies; and
 - (j) a cautionary note regarding possible variations in reported results.

PV7. IPSASB guidance on long-term fiscal sustainability reporting in GPFs should recommend that (a) the underlying projections should have been prepared or updated within five years of the reporting date, and (b) the date of preparation or update should be disclosed (Section Seven).

17. The FRSB agrees with the IPSASB recommending disclosure of the date of preparation or update of projections underlying information on long-term fiscal sustainability. However, the FRSB does not wish to express a view on the maximum time period between preparing/updating projections and reporting them. The Board considers that any information on long-term fiscal sustainability provided in GPFs should satisfy the qualitative characteristics of financial information, including timeliness.
18. The remainder of this comment letter provides some background on long-term fiscal sustainability reporting in New Zealand.

New Zealand developments in reporting information on long-term fiscal sustainability

New Zealand Government

19. The New Zealand Treasury is required under the Public Finance Act 1989 (as amended 2004) to publish a statement on New Zealand's long-term fiscal position at least every four years. Each statement must have a projection-horizon of at least 40 years. The New Zealand Government uses the same boundary for these reports as for the consolidated financial statements.
20. The most recent statement, *Challenges and Choices: New Zealand's Long-term Fiscal Statement*, was published on 29 October 2009.² This document is set out in three sections.
 - Part A discusses the broad issues facing New Zealand.
 - Part B looks at broad choices in relation to tax and spending.
 - Part C considers three possible scenarios and their impact on the projected fiscal position.

² URL on Treasury website at October 2009: <http://www.treasury.govt.nz/government/finances/longterm/fiscalposition/2009>
 Persistent URL: <http://www.purl.org/nzt/o-1243>

21. At present the financial statements of the New Zealand Government do not include a summary of the information in the long-term fiscal statement. This possibility has been considered but given the way the long-term fiscal statement is structured it would be difficult to decide which aspect to include in the financial statements.
22. The long-term fiscal statement is used by international rating agencies and others with an interest in the Government's long-term fiscal position.

New Zealand Local Authorities

23. Local authorities are required, under sections 84 and 93 of the Local Government Act 2002, to publish Long-Term Council Community Plans (LTCCPs) which include projected financial statements with a 10-year time horizon. Local authorities prepare these financial statements in accordance with the New Zealand domestic standard, FRS-42 *Prospective Financial Statements*.
24. The main purpose of prospective financial statements in the LTCCP is to provide users with information about the core services that the Council intends to provide ratepayers, the expected cost of those services and, as a consequence, how much the Council requires by way of rates to fund the intended levels of service.
25. In addition to the ten year horizon explicitly required by the Local Government Act, the Act has other requirements which effectively require local authorities to prepare long-term asset management plans. The 10th Schedule of the Act requires that the LTCCP contain information on how the council will identify future asset requirements to manage services and maintenance requirements. The only effective way that a local authority can verify that it has done so is to have an asset management plan, and due to the nature of infrastructure assets, this plan must often extend for 40 or 50 years. Asset management plans may be published as part of an LTCCP or in a separate document. Because LTCCPs are audited, the auditor also reviews the asset management plans. The audit opinion covers underlying information of which the asset management plans are a key component.
26. Users of the financial information in LTCCPs include ratepayer associations, Statistics New Zealand, universities and lenders.
27. An extract from the Local Government Act 2002 is set out below:

Local Government Act 2002 Schedule 10

Part 1 Information to be included in long-term council community plans

Council plans and reports

2 Group of activities

- (1) A long-term council community plan must, in relation to each group of activities of the local authority,—
 - (a) identify the activities within the group of activities;
 - (b) identify the rationale for delivery of the group of activities (including the community outcomes to which the group of activities primarily contributes);
 - (c) outline any significant negative effects that any activity within the group of activities may have on the social, economic, environmental, or cultural well-being of the local community;
 - (d) identify the assets or groups of assets required by the group of activities and identify, in relation to those assets or groups of assets,—
 - (i) how the local authority will assess and manage the asset management implications of changes to—
 - (A) demand for, or consumption of, relevant services; and
 - (B) service provision levels and standards;
 - (ii) what additional asset capacity is estimated to be required in respect of changes to each of the matters described in subparagraph (i);
 - (iii) how the provision of additional asset capacity will be undertaken;
 - (iv) the estimated costs of the provision of additional asset capacity identified under subparagraph (ii), and the division of those costs between each of the matters in respect of which additional capacity is required;
 - (v) how the costs of the provision of additional asset capacity will be met;

- (vi) how the maintenance, renewal, and replacement of assets will be undertaken:
- (vii) how the costs of the maintenance, renewal, and replacement of assets will be met:
- (e) include the information specified in subclause (2)—
 - (i) in detail in relation to each of the first 3 financial years covered by the plan; and
 - (ii) in outline in relation to each of the subsequent financial years covered by the plan.
- (2) The information referred to in subclause (1)(e) is—
 - (a) a statement of the intended levels of service provision for the group of activities, including the performance targets and other measures by which actual levels of service provision may meaningfully be assessed:
 - (b) the estimated expenses of achieving and maintaining the identified levels of service provision, including the estimated expenses associated with maintaining the service capacity and integrity of assets:
 - (c) a statement of how the expenses are to be met:
 - (d) a statement of the estimated revenue levels, the other sources of funds, and the rationale for their selection in terms of section 101(3).

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Ms Stephenie Fox
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29 April 2010

IPSASB Consultation Paper: Reporting on the Long-Term Sustainability of Public Finances

Dear Ms Fox,

The global organization of Ernst & Young is pleased to comment on the above Consultation Paper.

General comments

Economies all over the world have been affected by the recent financial crisis. Due to the rising fiscal pressures on governments we observe a growing need for sustainable governmental actions. Also the demographic developments will have a considerable impact on the future financial stability of several jurisdictions. In our view, reporting on the long-term sustainability of public finances will become one of the cornerstones of good governance for nations.

The information required to report on the long-term sustainability goes clearly beyond the scope of traditional financial reporting. Nevertheless, there is a clear connection between the results of the financial statements (for the current year and the next few years) and the projections made in fiscal sustainability reporting.

The challenge for governments is to balance their current spending and their future obligations as well as current and future taxation. Reports focusing on the sustainability of public finances are a central medium to assure transparency of fiscal affairs.

Many countries all over the world still follow single entry cash-based accounting or they are on their way to implement accrual accounting. Several of them see accrual accounting as well as

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consolidated financial statements as a prerequisite for reporting on the long-term sustainability of public finances.

Since reporting on the long-term sustainability of public finances by governments is still at an early stage, we recommend that the IPSASB does not follow the approach to issue a mandatory standard in the near future. The non-mandatory guidance developed by the IPSASB should not determine the content of these kinds of reports too strictly. We would favor a principle-based approach with a focus on the core information which should be included in this kind of reporting.

Nevertheless, given the intergenerational importance, the national interest in such kind of information and the high relevance for the policy debate, we would encourage the IPSASB to put a high priority on this project.

Preliminary View One: The presentation of information on long-term fiscal sustainability is necessary to meet the objectives of financial reporting (accountability and decision-making) as proposed in the IPSASB's Consultation Paper, "Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities," issued in September 2008.

We support the view of the IPSASB that the presentation of information on long-term fiscal sustainability is necessary to meet the objectives of financial reporting (accountability and decision-making). In our comment letter on the IPSASB Consultation Paper: Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities - Phase 1 from 26 March 2009, we referred to the concept of intergenerational or interperiod equity. This concept is inherent in (public sector) accrual accounting and should also be a central objective of reporting on the long-term sustainability of public finances. For example, the 2010 Australian report focusing on long-term sustainability of public finances is entitled "The 2010 Intergenerational Report".

Preliminary View Two: IPSASB guidance should recommend that long-term fiscal sustainability information in GPFRs be presented either through:

- Additional statements providing details of projections; or
- Summarized projections in narrative reporting.

We support the Board's preliminary view that Model Three ("Cross-references in GPFRs to other reports addressing long-term fiscal sustainability") is not sufficient as GPFRs are incomplete without adequate consideration of the long-term viability of government programs and a government's ability to meet financial commitments.

As some reports are very long and detailed and are not prepared on an annual basis we suggest that the IPSASB focus on developing principles for reporting on the long-term sustainability of public finances without being overly prescriptive about the content or the location in GPFRs.

If the public sector entity follows the concept of the reporting entity and prepares consolidated financial reports we would favor an approach that includes information on long-term sustainability of public finances also in the management commentary of GPFRs. If GPFRs and reports about the sustainability are based on different concepts then reconciliation should not be required for public sector entities at the moment. However, we recommend that the IPSASB encourage governments to carry out a reconciliation, at least at a high level. Otherwise the users of these reports will not be able to relate the figures presented in reports on the long-term sustainability of public finances to the financial position as presented in GPFRs.

Preliminary View Three: IPSASB guidance should be based on the concept of the reporting entity and should provide recommended practice for consolidated reports presented by all levels of government.

We support the IPSASB's view that IPSASB guidance should be based on the concept of the reporting entity. In our view, one of the major controversies with Preliminary View Three is that many governments base their reporting on the sustainability of public finances either on the statistical bases or the budgetary basis. Also from the point of view of the budget and/or applicable fiscal rules, at this stage of the development the IPSAS reporting concept does not seem appropriate for reporting on the long-term sustainability of public finances. Governments typically allocate public funds by way of budgeting. In many countries around the world government budgets are based on the cash basis of accounting and not on the accrual basis. If information on long-term information of public finances were based on the IPSAS reporting concept the interconnection to the budgetary implications might not be clear. Again, we suggest that the IPSASB encourage governments to carry out a reconciliation, at least at a high level.

In light of the current heterogeneous situation and the reporting possibilities of governments, our recommendation is for the IPSASB not to exclusively support one specific reporting base. In addition we recommend that reporting on the long-term sustainability should primarily focus on the top level of a country. In addition, separate reporting on long-term fiscal sustainability by subordinated public sector entities might not be appropriate due to financial balancing mechanisms between the different governmental levels. However, as far as reporting on the long-term sustainability of public finances is useful to the stakeholder of an organization, also sub-national levels of governments as well as other public sector entities should be encouraged to present such kind of information. In our experience, even large supranational/international entities are interested in their long-term sustainability. It is often the case that if these organizations fail to ensure their long-term fiscal sustainability then

nations or other supranational organizations would have to bear the financial responsibility. Therefore, we would recommend that the IPSASB should not rule out sub-national levels of government as well as other public sector entities for reporting on the long-term sustainability of public finances.

Preliminary View Four: IPSASB guidance should recommend that long-term fiscal sustainability indicators be selected based on (a) their relevance to the entity, (b) the extent to which the indicators meet the qualitative characteristics of financial reporting, and (c) their ability to describe the scale of the fiscal challenge facing the entity. It should also recommend that comparative information is provided and that the reasons for ceasing to report indicators, if this occurs, are disclosed.

We support the IPSASB's Preliminary View Four. In our view, it would not be appropriate for the IPSASB to recommend specific indicators at the moment. However, in order to be more specific with regard to the indicators, we recommend that, in a later stage of the development of guidance, the IPSASB refer to specific fiscal sustainability indicators based on best practices which might also be available for a wide range of governments.

Preliminary View Five: IPSASB guidance on long-term fiscal sustainability reporting in GPFRs should recommend that the entity disclose:

- Any deviations from the principle that long-term fiscal sustainability projections are based on current policy;
- The basis on which projections of inflows from taxation and other material revenue sources have been made;
- Any other key assumptions underpinning long-term fiscal sustainability projections; and
- Details of key aspects of governing legislation and regulation, and the underlying macro-economic policy and fiscal framework.

We agree with the principles formulated by the IPSASB in Preliminary View Five. In addition, we would like to add to the list that the entity discloses which areas of the report are just updated/extrapolated in comparison to the previous report and which are planned in detail.

Preliminary View Six: IPSASB guidance on long-term fiscal sustainability reporting in GPFRs should recommend that the entity disclose:

- Time horizons for fiscal sustainability projections presented or discussed in the GPFRs as well as the reason for modifying time horizons and any published plans to modify those horizons;
- Discount rates, together with the reason for their selection;
- Results of key sensitivity analyses; and
- Steps taken to ensure that projections are reliable.

The disclosures stated in Preliminary View Six are essential elements in fiscal sustainability reporting. In our view a further point should be that the methods used for the calculation of the projections should be described in a comprehensible manner so that users are able to verify the information presented in the reports. We also strongly support the IPSASB's view that for reports focusing on the long-term sustainability of public finances key sensitivity analyses are of great value.

The longer the time period the more the intergenerational perspective could be considered. A longer time horizon would allow considering two to three generations on average. But we also see the limitation that the greater the time horizon, the less reliable/objective the information produced. Therefore, we would encourage the IPSASB not to determine a specified time horizon for reporting on the long-term sustainability of public finances at this stage of the development.

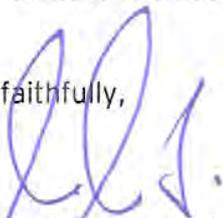
Preliminary View Seven: IPSASB guidance on long-term fiscal sustainability reporting in GPFRs should recommend that (a) the underlying projections should have been prepared or updated within five years of the reporting date, and (b) the date of preparation or update should be disclosed.

We support IPSASB's Preliminary View Seven. In our view, it seems appropriate that all projections are analyzed, prepared and/or updated every five years. We recommend that if the public sector entity publishes these kinds of reports on an annual basis then not all projections have to be recalculated again. In our view, limited updates of these projections could suffice, as long this is expressed clearly in the GPFRs.

We would be pleased to discuss our views with the Board or staff at its convenience.

Please contact Thomas Müller-Marqués Berger at +49 711 9881 15844.

Yours faithfully,


Thomas Müller-Marqués Berger
Prof. Dr. Peter Oser



The Institute of
Chartered Accountants
of Pakistan

HEAD OFFICE

International Public Sector Accounting Standards' Board
International Federation of Accountants
545 Fifth Avenue, 14th Floor,
New York
USA

April 29, 2010

Subject: **COMMENTS ON CONSULTATION PAPER TITLED 'LONG TERM SUSTAINABILITY OF PUBLIC FINANCES'**

Sir,

The Institute of Chartered Accountants of Pakistan welcomes the opportunity to offer comments on the above mentioned consultation paper.

Please find enclosed the comments of the relevant Committee of the Institute for your perusal.

If you require any further clarification, please do not hesitate to contact us.

Yours faithfully,

Shahid Hussain
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COMMENTS ON CONSULTATION PAPER TITLED 'LONG TERM SUSTAINABILITY OF PUBLIC FINANCES'

PRELIMINARY VIEWS (PVs)

PV 1:

The presentation of information on long-term fiscal sustainability is necessary to meet the objectives of financial reporting (accountability and decision-making) as proposed in the IPSASB's Consultation Paper, "Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities," issued in September 2008 (Section Two).

Comment on PV1:

The paper referred to above¹ sets out the objectives of financial reporting by public sector entities as to provide information about the reporting entity useful to users of GPFs for:

- Accountability purposes; and
- Making resource allocation, political and social decisions.

Given that it is imprudent to make decisions about specific programs/projects/ transactions without looking at the impact on long term finances, this specific view is strongly supported. In Pakistan's context this is all the more critical given our fragile fiscal position.

PV 2:

IPSASB guidance should recommend that long-term fiscal sustainability information in GPFs be presented either through:

- Additional statements providing details of projections; or
- Summarized projections in narrative reporting (Section Three).

Comment on PV 2:

In Pakistan's context specifically the ability for decision makers to focus on detail is very limited, on top of which relatively important items which can be impacted by political decision-making may be mixed with other items where the ability to make a difference is limited. It is therefore suggested that the consultation paper be modified to include summarized projections in narrative reporting as mandatory, possibly supported by additional statements providing details of projections. The summarized projections should set out as separate items any major areas which can be impacted by government decision making.

PV 3:

IPSASB guidance should be based on the concept of the reporting entity and should provide recommended practice for consolidated reports presented by all levels of government (Section Four).

¹ Downloaded from IFAC's website

Comment on PV 3:

We agree. In Pakistan's context there should be separate reporting by each of the Federal and Provincial Governments, as well as by local governments and agencies (like Water and Sanitation Agencies).

PV 4:

IPSASB guidance should recommend that long-term fiscal sustainability indicators be selected based on (a) their relevance to the entity, (b) the extent to which the indicators meet the qualitative characteristics of financial reporting, and (c) their ability to describe the scale of the fiscal challenge facing the entity. It should also recommend that comparative information is provided and that the reasons for ceasing to report indicators, if this occurs, are disclosed (Section Five).

Comment on PV 4:

Agreed.

PV 5:

IPSASB guidance on long-term fiscal sustainability reporting in GPFRs should recommend that the entity disclose:

- Any deviations from the principle that long-term fiscal sustainability projections are based on current policy;
- The basis on which projections of inflows from taxation and other material revenue sources have been made;
- Any other key assumptions underpinning long-term fiscal sustainability projections; and
- Details of key aspects of governing legislation and regulation, and the underlying macro-economic policy and fiscal framework (Section Six).

Comment on PV 5:

We agree. However it is also recommended that the primary fiscal projections should only be made based on the existing policy. The result of policy changes should be reflected in a separate version, and only if the revised policy has been formulated and been through the initial level of government approval.

PV 6:

IPSASB guidance on long-term fiscal sustainability reporting in GPFRs should recommend that the entity disclose:

- Time horizons for fiscal sustainability projections presented or discussed in the GPFRs as well as the reason for modifying time horizons and any published plan to modify those horizons;
- Discount rates, together with the reason for their selection;
- Results of key sensitivity analyses; and
- Steps taken to ensure that projections are reliable (Section Seven).

Comment on PV 6:

We agree. The IPSAS should, however, apart from the requirement to disclose, contain some guidance on how the parameters are selected.

PV 7:

IPSASB guidance on long-term fiscal sustainability reporting in GPFRs should recommend that (a) the underlying projections should have been prepared or updated within five years of the reporting date, and (b) the date of preparation or update should be disclosed (Section Seven).

Comment on PV 7:

We do not agree. Five years is too long. Three years is acceptable as in many developing countries projections prepared five years ago would almost certainly not be relevant.



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7 April 2010

Ms Stephenie Fox
Technical Director
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277 Wellington Street West
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Dear Stephenie

IPSASB Consultation Paper
Reporting on the Long-Term Sustainability of Public Finances

The Australian Accounting Standards Board (AASB) is pleased to submit its comments on the above-named Consultation Paper. In formulating its comments, the AASB sought and considered the views of constituents. The comment letters received are published on the AASB's website.

In developing this submission, the AASB consulted with the New Zealand Financial Reporting Standards Board.

Importance of this project

The AASB considers this is a very important project of the IPSASB, particularly from the viewpoint of the probable usefulness to users of the information involved and because it brings much needed focus onto the identification of the boundaries of general purpose financial reporting. It therefore encourages the IPSASB to give this project a high priority from both viewpoints.

The scope of general purpose financial reporting

The AASB generally agrees with the Preliminary Views in the Consultation Paper. Its main concern is that, whilst it considers that some information useful for assessing long-term fiscal sustainability (LTFS) belongs within the scope of general purpose financial reporting, it is quite probable that not all information useful for that purpose belongs within that scope. The AASB considers that usefulness of information, per se, is not a sufficient discriminator to decide what is part of general purpose financial reporting. If it were, annual reports, and more, would fall within the scope of GPFRs. We need criteria to determine what is part of financial reporting and what is not. This project illustrates that there is a gap in the conceptual framework. Whilst the IPSASB is addressing the scope of financial reporting in Phase 1 of its conceptual framework project, it has tentatively decided that the scope of financial reporting should evolve in response to users' information needs –

this decision addresses the boundaries of useful information but not of financial reporting information.

The IPSASB has found it difficult to define fiscal sustainability. The AASB suspects that this is because the IPSASB is rightly trying to encourage an emerging practice which has been born not out of efforts to try to develop financial reporting, but rather out of a desire to have governments communicate about the consequences of their policies. Some of those consequences are financial and of those some relate to matters covered in financial reports already and some relate to matters that should be included in such reports in the future.

Strategically, the AASB supports the IPSASB's short-term fostering of fiscal sustainability reporting through guidance, but would like to see rigour, over time, in delineating the financial reporting aspects thereof and helping others to see what falls to them. We do not envisage that accounting standards would be the source of guidance or requirements for everything that might be embraced by the topic.

General relevance of long-term fiscal sustainability reporting

Conceptually, the AASB sees no reason why financial sustainability is not a legitimate subject of every entity's financial reporting, whether in the private or public sector, and whether for profit or not. Conversely, it would be misleading for financial statements to be produced which ignore the anticipated consequences of existing or changed policies, changes in markets or changes in other environmental circumstances. Users' attention would need to be drawn to these to correct impressions about sustainability that might flow from just presenting basic financial statements.

We would encourage the IPSASB to challenge the IASB on reporting information about LTFS (and, therefore, the scope of general purpose financial reporting), so that both Boards consider it in their conceptual framework projects. Further, we would urge that the IPSASB not treat the topic as if it were something unique to reporting by governments or even the public sector.

The prime examples seen to date of such reporting are focused on the fiscal sustainability of governments' current policies, but it is doubtful that this is where things will finish.

The AASB recommends that, to resolve the scoping issue, it is crucial that the IPSASB defines general purpose financial reporting in its Conceptual Framework project.

Other significant comments

The AASB's other significant comments on the Preliminary Views are that:

- (a) in relation to Preliminary View 2, information useful for assessing LTFS provided outside general purpose financial statements should not necessarily be provided in additional statements provided with each set of general purpose financial statements or as summarised projections in narrative reporting; and
- (b) in relation to Preliminary View 3, the AASB would not support limiting information about LTFS in GPFRs to being reported only in respect of an entire reporting entity.

It seems that (a) depends on an implicit relationship between existing financial reporting and fiscal sustainability reporting that is not well explored and about which it is too early to be definitive. In relation to (b), we see no reason why a component or segment of an entity could not be the subject of such reporting.

As indicated, the AASB recognises that reporting information about LTFS is an evolving area, and further experience with such reporting will provide further insights into the ways in which the information can best be communicated and the part with which financial reporting can assist.

The AASB's specific comments on the Preliminary Views are set out in the attached submission.

If you have queries regarding any matters in this submission, please contact me or Jim Paul (jpaul@asb.gov.au).

Yours sincerely,

A handwritten signature in black ink, appearing to read 'K M Stevenson', written in a cursive style.

Kevin M. Stevenson
Chairman

AASB comments on IPSASB Consultation Paper *Reporting on the Long-Term Sustainability of Public Finances*

Specific matters for comment

The AASB provides the following comments on the IPSASB's Preliminary Views set out in the Consultation Paper.

Preliminary View 1

The presentation of information on long-term fiscal sustainability is necessary to meet the objectives of financial reporting (accountability and decision-making) as proposed in the IPSASB's first Consultation Paper, "Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities", issued in September 2008 (Section Two).

The AASB agrees that some information useful for assessing an entity's long-term fiscal sustainability (LTFS) belongs within the scope of general purpose financial reporting. However, the Board is not convinced that all information currently provided in LTFS reports is within the scope of financial reporting. For example, a government, for political reasons, may produce a report aiming to shore up its political position by illustrating the affordability of its policies when compared with those of its opposition. The subject could revolve around sustainability. We do not think that standard-setting can regulate such political activity and nor would we see all that might be published in that context to be suitable for financial reporting.

Therefore, the AASB considers it is crucial to conceptually define the scope of general purpose financial reporting, to identify which information useful for assessing an entity's LTFS belongs within the scope of general purpose financial reporting.

Preliminary View 2

IPSASB guidance should recommend that long-term fiscal sustainability information in GPFs be presented either through:

- Additional Statements providing details of projections; or
- Summarized projections in narrative reporting (Section Three).

The AASB agrees that some LTFS information is part of general purpose financial reporting. As indicated above in relation to Preliminary View 1, the AASB considers it is crucial to define the scope of general purpose financial reporting, to identify *which* information useful for assessing an entity's LTFS belongs within the scope of general purpose financial reporting. The AASB emphasises its focus on the subject matter of general purpose financial *reporting*, rather than on the various vehicles in which general purpose financial reporting information is conveyed [i.e., in different forms of general purpose financial reports (GPFs)]. This is because general purpose financial reporting can occur in different GPFs, and the form of the report is a subsidiary issue to identifying which information should be included in an entity's general purpose financial reporting.

Nevertheless, the AASB has the following comments about the form of GPFRs in which information about LTFS may be provided.

The AASB considers that general purpose financial statements should provide at least some of the information useful for assessing an entity's LTFS. The AASB also considers that, for various entities, information useful for assessing their LTFS is appropriately provided outside their general purpose financial statements. Where this occurs, the AASB considers some of that information would also be within the scope of general purpose financial reporting information. The extent to which that information falls within the scope of general purpose financial reporting would depend on how that scope is defined.

The remainder of the AASB's comments on Preliminary View 2 are in respect of information useful for assessing LTFS that is within the scope of general purpose financial reporting, but provided outside current general purpose financial statements.

The AASB supports fostering reporting of LTFS information in additional statements providing details of projections or in narrative reporting. However, the AASB considers that IPSASB guidance on recommended practice:

- (a) should not indicate that additional statements providing information on LTFS should necessarily be provided with each set of general purpose financial statements. Statements providing information on LTFS may not be needed annually (paragraphs 3.1.3 – 3.1.4 of the Consultation Paper emphasise such reporting on an annual basis);
- (b) should treat projections and related narrative on LTFS as a form of narrative reporting in its own right. This viewpoint is consistent with the comment in paragraph 3.1.2 of the Paper, but that comment generally is not reflected elsewhere in the Paper's discussion. The AASB considers that IPSASB guidance should neither require information on LTFS to be reported jointly with other narrative reporting information (as is emphasised in paragraph 3.1.7 of the Paper), nor should it require projections to be summarised for the purpose of inclusion in narrative reporting. The process of summarisation can present difficulties in providing a balanced and comprehensive overview of the factors and projected circumstances that are relevant to assessing an entity's LTFS; and
- (c) should acknowledge the appropriateness of preparing standalone GPFRs containing information specifically regarding LTFS. In this regard, paragraph 3.1.10 of the Paper notes, as an alternative to the two reporting mechanisms mentioned in the Preliminary View, the possibility of requiring narrative reports within a GPFR to refer to LTFS reports outside the GPFRs. The AASB considers that such separate LTFS reports should not be presumed to be outside the entity's GPFRs.

The AASB's recommendations above reflect a view that guidance on LTFS reporting:

- (a) should not be too prescriptive as the form of presentation of information about LTFS in an entity's general purpose financial reporting; and

- (b) should focus on whether an entity's GPFRs, collectively, provide all of the information that is useful to users of the entity's GPFRs for accountability and decision-making purposes. Thus, it should be acceptable for:
- (i) GPFRs providing some of the information useful for assessing an entity's LTFS to be presented separately from other GPFRs of the entity (such as those including its general purpose financial statements); and, as a corollary,
 - (ii) a GPFR (such as a report including an entity's general purpose financial statements) not to include all of the information useful for assessing the entity's LTFS.

Preliminary View 3

IPSASB guidance should be based on the concept of the reporting entity and should provide recommended practice for consolidated reports presented by all levels of government (Section Four).

The AASB considers that information about LTFS presented within a GPFR should not encompass information about entities outside the boundary of the reporting entity. In that sense, the AASB agrees that the concept of a reporting entity should be reflected in IPSASB guidance on reporting information about LTFS. However, the AASB would not support limiting information about LTFS in GPFRs to being reported only in respect of an entire reporting entity. For example, the IPSASB should not preclude reporting of such information in respect of particular segments or other components of a government in LTFS information provided within, or together with, a GPFR for that government (such as the government's general purpose financial statements).

Regarding the range of entities that should report information about LTFS, the AASB considers that emphasising national governments is a good starting point. However, the AASB recommends that the IPSASB should keep a flexible outlook on which public sector entities should report this information in their general purpose financial reporting. For example, it considers that users of GPFRs of sub-national levels of government, such as state and provincial governments, may also find information about LTFS useful for accountability and decision-making purposes.

The AASB is concerned that the focus of Preliminary View 3 on *consolidated* financial reports (as discussed in paragraphs 4.4.1 – 4.4.2 of the Paper) may be unintentionally restrictive, for the reason explained below. Accordingly, the AASB recommends referring to providing recommended practice for consolidated financial reports or, where the reporting entity does not include controlled entities, for the financial report of that entity.

The AASB's concern that the wording of this Preliminary View may be unintentionally restrictive is illustrated by the following example regarding local governments. Some local governments may be structured as single entities, and thus would not have controlled entities. Consequently, those local governments would not prepare *consolidated* financial reports. The AASB is unsure whether the IPSASB intended that its guidance should:

- (a) encourage an entity at a particular level of government that has controlled entities to report information about LTFS in GPFRs; but

- (b) not encourage another entity at the same level of government within the same jurisdiction without controlled entities to report such information in GPFRs.

If that distinction was intended, the AASB would not agree with it. Whether an entity has controlled entities should not be a determinant of whether it reports information about LTFS in its GPFRs.

Preliminary View 4

IPSASB guidance should recommend that long-term fiscal sustainability indicators be selected based on (a) their relevance to the entity, (b) the extent to which the indicators meet the qualitative characteristics of financial reporting, and (c) their ability to describe the scale of the fiscal challenge facing the entity. It should also recommend that comparative information is provided and that the reasons for ceasing to report indicators, if this occurs, are disclosed (Section Five).

The AASB agrees. As a matter of expression, the AASB suggests referring to relevance and the other qualitative characteristics. The separation of parts (a) and (b) of this Preliminary View implies relevance is not a qualitative characteristic.

Preliminary View 5

IPSASB guidance on long-term fiscal sustainability reporting in GPFRs should recommend that the entity disclose:

- Any deviations from the principle that long-term fiscal sustainability projections are based on current policy;
- The basis on which projections of inflows from taxation and other material revenue sources have been made;
- Any other key assumptions underpinning long-term fiscal sustainability projections; and
- Details of key aspects of governing legislation and regulation, and the underlying macro-economic policy and fiscal framework (Section Six).

The AASB agrees.

The AASB considers that, in reporting information on LTFS, entities should present a balanced objectively-determined range of indicators, focusing on key assumptions and scenarios, to avoid such reports becoming political or management tools.

The AASB considers that the IPSASB should, in addition to recommending disclosure of key assumptions underpinning LTFS projections, recommend disclosure of the reasons for selecting these assumptions.

Preliminary View 6

IPSASB guidance on long-term fiscal sustainability reporting in GPFRs should recommend that the entity disclose:

- Time horizons for fiscal sustainability projections presented or discussed in the GPFRs as well as the reason for modifying time horizons and any published plans to modify those horizons;
- Discount rates, together with the reason for their selection;
- Results of key sensitivity analyses; and
- Steps taken to ensure projections are reliable (Section Seven).

The AASB agrees, subject to the comments below.

In relation to disclosures about discount rates, the AASB considers that disclosure should be made of the basis on which discount rates were determined rather than of the discount rates used. For example, is risk incorporated in the measurement of the amounts disclosed and, if so:

- (a) what is the nature of the risks incorporated? and
- (b) is the risk adjustment made to the estimated cash flows or the discount rate used?

In relation to the last recommendation in Preliminary View 6, the AASB considers it should be clarified that the disclosure is of the steps the entity's management or governing body took in ensuring projections are supportable, and not the steps taken by those responsible for external assurance. This is not clear in paragraphs 7.5.1 – 7.5.4 of the Paper. Given the problems noted by the IASB and FASB with misconceptions about the meaning of 'reliable' information, the AASB suggests referring to 'supportable' projections (in the sense that the projections can be supported by available evidence and reasonable assumptions about uncertain future events).

Preliminary View 7

IPSASB guidance on long-term fiscal sustainability reporting in GPFs should recommend that:

- (a) the underlying projections should have been prepared or updated within five years of the reporting date, and
- (b) the date of preparation or update should be disclosed (Section Seven).

The AASB agrees with the IPSASB recommending disclosure of the date of preparation or update of projections underlying information on LTFS. However, the AASB does not have a view on the particular maximum time period between preparing/updating projections and reporting them. The AASB considers that any information on LTFS provided in GPFs should satisfy the qualitative characteristics of financial information, including timeliness.



May 11, 2010

CLIFF #: 226737

Website: <http://web.ifac.org/my/exposure-draft/comments/create/133>
280-30

Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West
Toronto, ON M5V 3H2

Dear Technical Director:

RE: Consultation Paper on the Reporting on the Long-Term Sustainability of Public Finances

Thank you for the opportunity to comment on the Reporting on the consultation paper on Long-Term Sustainability of Public Finances consultation paper. The views expressed in this letter reflect the views of the government of the Province of British Columbia.

The Province of BC acknowledges that the proposed guidance on the reporting of the long-term sustainability of public finances represents effective guidance for the preparation of these reports; however, the province recommends that the guidance not be included within the IPSAS library of GAAP for the preparation of general purpose financial statements (GPFS). Including this guidance as part of IPSAS GAAP would indicate to the audit community that fiscal sustainability reporting is a GAAP requirement, whether or not the guidance itself states that preparing the reports is voluntary. As a consequence, the audit community would perceive that the fiscal sustainability reports must be prepared even when the guidance itself states that their preparation is voluntary.

The consultation paper states in paragraph 2.4.6:

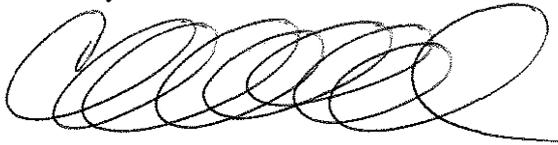
The IPSASB recognized that the long-term financial effects of government policies need to be made transparent to meet both the decision-making and accountability objectives of financial reporting. Therefore, in order to satisfy user-needs and meet the objectives of financial reporting, information presented in the GPFSs needs to be enhanced by presenting other information about the long-term fiscal sustainability of those programs, including their financing.

.../2

The Province of British Columbia disagrees with the position of the IPSASB. The Province of BC believes that general purpose financial statements are historical in nature and should limit their reporting to historical events. We agree that GPFS include information related to future obligations; however, the future orientated information in GPFS is restricted to contractual obligations that are existent at the financial statement date. Information about the fiscal sustainability of governments must be reported in reports that are separate from the GPFS. We agree, however, that the management discussion and analysis section of GPFS could be used to direct the reader to the reporting of fiscal sustainability that is external to the GPFS. The Province of BC is also concerned about prospective information being included in GPFS, which could lead to an audit qualification by an auditor on the prospective information. Prospective information should be included with an entity's budget documents; it should not be included with GPFS.

Responses to specific questions posed in the discussion paper are attached. Should you have any comments or questions, please contact me at 250-387-6692 or by e-mail: Cheryl.Wenzecki-Yolland@gov.bc.ca, or Carl Fischer, Executive Director, Financial Reporting and Advisory Services Branch, at 250-356-9272 or by e-mail: Carl.Fischer@gov.bc.ca.

Sincerely,



Cheryl Wenzeki-Yolland, CMA, FCMA
Comptroller General
Province of British Columbia, Canada

cc: Graham Whitmarsh, Deputy Minister
Ministry of Finance

Nick Paul, Deputy Secretary to the Treasury Board
Ministry of Finance

Carl Fischer, Executive Director
Financial Reporting and Advisory Services
Office of the Comptroller General

Question 1

The presentation of information on long-term fiscal sustainability is necessary to meet the objectives of financial reporting (accountability and decision-making) as proposed in the IPSASB's Consultation Paper, "Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities," issued in September 2008 (Section Two).

The Province of BC believes that GPFS should be restricted to the reporting of historical information. In the province's response to the IPSASB's Consultation Paper, "Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities," the province stated:

We believe that the primary objective of financial statements is accountability; we do not agree that financial statements are used to make resource allocation, political or social decisions. Resource allocations are made in the annual budget process when next year's resource allocations are determined well in advance of the end of the previous reporting period. Budget preparation is based on a great deal of data. Much of it is forward looking in relation to expected revenue or other resources and the perceived needs of service recipients, estimates of future economic performance of the economy within, and economies outside the jurisdiction preparing the budget. Some data used will include historical performance information derived from accounting and other service delivery records. We do not support equating the accountability objective with any other objective.

Financial statements may contribute to social or political decisions only in the broadest context of voting decisions of the major users – the public. These decisions are made once every several years, depending on the constitutional requirements of the jurisdiction and again, financial statements are providing information in relation to accountability. Social and political decisions are made more in relation to future expectations tempered by the accountability performance of the individuals making the promises. We feel that accountability, stewardship and transparency are more relevant objectives of financial statements.

Question 2

IPSASB guidance should recommend that long-term fiscal sustainability information in GFRs be presented either through:

- **Additional statements providing details of projections; or**
- **Summarized projections in narrative reporting (Section Three).**

The Province of BC believes that IPSAS guidance for the preparation of GPFS should not include any guidance related to the preparation of the reporting on the

long-term sustainability of public finances. Including this guidance as part of IPSAS GAAP would suggest to the audit community that fiscal sustainability reporting is a GAAP requirement, whether or not the guidance itself states that preparing the reports is voluntary. Our experience has been that the audit community would perceive that the fiscal sustainability reports must be prepared even when the guidance itself states that their preparation is voluntary. We recommend that any IPSAS guidance on the reporting on the long-term sustainability of public finances be included in a separate library, which is distinct and different from the GAAP library related to the preparation of GPFSS.

The Province of BC agrees, provided the guidance is not included in the IPSAS library of GAAP for the preparation of GPFSS, that guidance on the long-term sustainability of public finances should be presented through:

- additional statements providing details of projections; or
- summarized projections in narrative reporting (Section Three).

Question 3

IPSASB guidance should be based on the concept of the reporting entity and should provide recommended practice for consolidated reports presented by all levels of government (Section Four).

The Province of BC disagrees with preliminary view 3. The consultation paper in section 4.2.4 states that “many governments that report publicly on long-term fiscal sustainability do not use the same boundary for these reports as for their consolidated GPFSS. Instead they adopt a boundary determined by statistical bases of accounting or one based on the budget sector.” These governments have determined that the GPFSS reporting boundary is insufficient or inappropriate for the reporting on the long-term sustainability of public finances. It is likely that these governments will continue issuing reports on long-term sustainability of public finances on a basis consistent with earlier reports. The IPSASB guidance should be targeted at these reports. The existing reports on the long-term sustainability of public finance reports that are prepared on a basis inconsistent with the IPSASB consultation paper on the conceptual framework emphasizes the requirement to have guidance on the reporting on the long-term sustainability of public finances sustainability in a library separate from the library of GAAP for the preparation of GPFSS.

Question 4

IPSASB guidance should recommend that long-term fiscal sustainability indicators be selected based on (a) their relevance to the entity, (b) the extent to which the indicators meet the qualitative characteristics of financial reporting, and (c) their ability to describe the scale of the fiscal challenge facing the entity. It should also recommend that comparative information is provided and that the reasons for ceasing to report indicators, if this occurs, are disclosed (Section Five).

The Province of BC agrees that fiscal sustainability indicators should be based on their relevance to the entity; however, as noted in the response to question 3, the entity boundaries that are being used for the preparation of the fiscal sustainability reports should not be limited to the reporting entity concept included in IPSASB GAAP.

The Province of BC agrees that IPSASB guidance should recommend that long-term fiscal sustainability indicators should be selected based on the extent to which the indicators meet the qualitative characteristics of financial reporting and their ability to describe the scale of the fiscal challenge facing the entity. The province is in agreement that if comparative information is available, it should be included in the fiscal sustainability reports. We also agree that the reasons an indicator is no longer provided should also be disclosed.

Question 5

IPSASB guidance on long-term fiscal sustainability reporting in GPFRs should recommend that the entity disclose:

- **Any deviations from the principle that long-term fiscal sustainability projections are based on current policy;**
- **The basis on which projections of inflows from taxation and other material revenue sources have been made;**
- **Any other key assumptions underpinning long-term fiscal sustainability projections; and**
- **Details of key aspects of governing legislation and regulation, and the underlying macro-economic policy and fiscal framework (Section Six).**

The Province of BC agrees that long-term fiscal sustainability reports should disclose:

- Any deviations from the principle that long-term fiscal sustainability projections are based on current policy;
- The basis on which projections of inflows from taxation and other material revenue sources have been made;
- Any other key assumptions underpinning long-term fiscal sustainability projections; and
- Details of key aspects of governing legislation and regulation, and the underlying macro-economic policy and fiscal framework.

Question 6

IPSASB guidance on long-term fiscal sustainability reporting in GPFRs should recommend that the entity disclose:

- **Time horizons for fiscal sustainability projections presented or discussed in the GPFRs as well as the reason for modifying time horizons and any published plans to modify those horizons;**

- **Discount rates, together with the reason for their selection;**
- **Results of key sensitivity analyses; and**
- **Steps taken to ensure that projections are reliable (Section Seven).**

The Province of BC agrees with this preliminary view; however, we note that it is unlikely that long-term fiscal sustainability projections are reliable as projecting the future has proven to be very unreliable. The guidance on long-term fiscal sustainability reporting should require the preparer to make statements about the unreliability of future projections contained in the report and that many other outcomes could possibly occur compared to the ones included in the report.

Question 7

IPSASB guidance on long-term fiscal sustainability reporting in GPFRs should recommend that (a) the underlying projections should have been prepared or updated within five years of the reporting date, and (b) the date of preparation or update should be disclosed (Section Seven).

The Province of BC disagrees with this preliminary view. The entity preparing the long-term fiscal sustainability reporting is best suited to determine the frequency of reporting on the long-term sustainability of public finances.

May 26, 2010

Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street, 4th Floor
Toronto, Ontario M5V 3H2 CANADA

**Re: PSAB Staff Comments on Consultation Paper
“Reporting on the Long-Term Sustainability of Public Finances”**

Thank you for the opportunity to provide input on the proposals in this consultation paper (CP). We apologize for the delay in our response.

Detailed comments about the consultation paper are provided in Appendix A to this letter. In principle, however, we support the concept of long term fiscal sustainability reporting (LTFSR). Specifically, we support it within the following parameters.

- (a) We agree that the reporting of long term fiscal sustainability information is necessary to meet the objectives of financial reporting - i.e., accountability and decision-making [Preliminary View (PV) 1].
- (b) We feel that reporting on the long term fiscal sustainability of public finances is broader than the aspects contemplated in the paper, which focus primarily on the long term sustainability of government programs. For example, the paper does not address the sustainability of capital assets, which form the foundation for the delivery of many government services.
- (c) We support LTFSR as reporting supplemental to but perhaps accompanying government general purpose financial statements (see CICA Public Sector Accounting (PSA) Handbook, FINANCIAL STATEMENT CONCEPTS, paragraphs PS 1000.07-.13). [PV 2]
- (d) We feel that LTFSR should start with indicators derived from the audited financial statements (i.e., based on historical data) as its base (see the Canadian SORP-4, *Indicators of Financial Condition*). LTFSR should also include additional future oriented financial information. As a whole, this reporting should provide information about the government’s ability to meet its service delivery and financial commitments both now and in the future.
- (e) We believe that the nature of LTFSR is best suited to governments, and is unlikely to be appropriate for government organizations. The

long term fiscal sustainability of government organizations is inextricably linked to that of government and so it is likely impossible to do meaningful LTFSR at the government organization level.

- (f) We agree that the IPSASB guidance on LTFSR should be based on the concept of the reporting entity [PV 3] and the boundaries of the reporting entity should be the same as for GPFS (which should also be the reporting entity boundary for the GPFR) and that the information reported on long term fiscal sustainability should embody the same basic qualitative characteristics as required for the information reported in general purpose financial statements (GPFS).
- (g) We believe that this type of reporting can be done by governments at the sub-national level (see Canadian SORP-4, *Indicators of Financial Condition*). [PV 3]

In addition, we wish to draw the attention of the IPSASB to these primary areas of concern:

- (a) The paper is too focused on the sustainability of government programs, likely because of the project's roots in the social policy obligations project. The project title may be a misnomer as significant aspects of public finances are not directly addressed in the paper. For example the condition of capital assets (including maintenance and replacement), such as major infrastructure networks, and the ability of such assets to continue to deliver government services over the long term, is ignored. The sustainability of public finances goes beyond program spending, particularly for capital intensive governments.
- (b) Sustainability must be balanced with desired levels of performance. We must not appear to be advocating sustainability at the expense of other government priorities. Some programs need not be sustainable as their need is short-lived. Some programs may not be sustainable because of economic considerations that require a re-prioritization of how/where resources are applied. To illustrate, an extreme example might be "sustainable" roads paved in indestructible materials while people are dying in the streets. Some mention of this necessary balance between sustainability and levels of performance should be included in the exposure draft that follows this consultation.
- (c) LTFSR is unlikely to find favour in Canada as part of a standard - i.e., if it is required reporting; or if it is required as part of GPFS rather than as supplementary and optional reporting. PSAB has received significant pushback from the preparers of government financial statements to its Statements of Recommended Practice (SORPs), in particular to clarify their status (i.e., that they are not GAAP) and the nature of their authority (i.e., that they are not standards or required reporting but are to be used if a government

chooses to prepare the types of supplementary reporting that the SORPs address). The SORPs include:

- (i) Financial Statement Discussion and Analysis (FSD&A);
- (ii) Public Performance Reporting;
- (iii) Assessment of Tangible Capital Assets; and
- (iv) Indicators of Financial Condition.

SORP-4 addresses indicators of financial condition for all levels of government in Canada and was published in May 2009. This Statement is not referenced at all in the Consultation Paper. Although these SORPs do not require the types of reporting they address, they do set out best practices that are expected to be followed should a government choose to provide such reporting. And, the SORPs go through a full due process of consultation with the Canadian government community. So, arguably, SORP-4 does represent a consensus view on how to report on government financial condition from a Canadian perspective (when Canadian governments choose to report on it).

We recommend that guidance on LTFSR not be a standard but instead be guidance provided outside of GAAP.

- (d) Some glossary of terms will be needed. Some terms come from projects that are currently under development, like the definitions of elements and a description of the information envisioned for inclusion in GPFRs and narrative reporting. Other terms may be unique to LTFSR but will require some precision so that this very complex reporting can be understood, for example the difference between the types of information included in a budget, a forecast and a projection. An example that illustrates how to put some parameters around reporting that involves projections is a soon to be superseded (by the adoption of IFRS) standard in the CICA Handbook-Accounting, FUTURE ORIENTED FINANCIAL INFORMATION (FOFI), Section 4250. In addition, there will need to be consideration of the different ways the terms “financial condition” and fiscal sustainability” are used internationally in developing definitions and descriptions of these for the IPSASB project. An additional Canadian resource may also be of use and we can provide it electronically if it is of interest. In 1976, the CICA published a research study “Earnings Forecasts”. It was directed at the private sector and was published before earnings forecasts were common practice in Canada. It is a comprehensive study and some of the definitions and guidance it includes could be easily adapted for the public sector.
- (e) We do not believe that LTFSR should result in the creation of new financial statements. We believe that such reporting should be supplemental to and complementary to the GPFS. We believe that stating that the ultimate objective is to move toward adding financial statements to illustrate LTFS is premature.

- (f) We believe that financial condition is a broad complex concept that describes a government's financial health in the context of the overall economic and financial environment. In addition, we believe that an assessment of a government's financial condition needs to consider at a minimum the government's sustainability flexibility and vulnerability. These are each separate but inter-related subsets of a government's financial condition. Financial condition can be assessed at the financial statement date (i.e., using historical data), which is the primary intent of Canada's SORP-4. It can also be a forward looking concept that projects the government's future sustainability, flexibility and vulnerability using assumptions. We feel that additional clarity regarding what financial condition, fiscal sustainability, vulnerability and flexibility mean and how they relate to each other will be key in the exposure draft in order for respondents/users to get a picture of what the guidance is asking to be reported. Please see further comments in Appendix A.
- (g) We do not believe that fiscal sustainability is inextricably linked with the idea of inter-period or inter-generational equity (CP paragraphs 1.2.3 and 5.3.1). Inter-generational equity or even inter-period equity may be good concepts in theory but are very difficult to achieve in practice. Further discussion of this concern is set out in Appendix A.
- (h) We are concerned that the amount of flexibility (for example, variations in assumptions) allowed in LTF SR by the CP would make comparability of LTF SRs between jurisdictions and between years for the same jurisdiction difficult and the reports too complex for users. Some further rigour may be required in the guidance to address this risk. Further discussion of this proposal is set out in Appendix A.

We appreciate the opportunity to comment on this Consultation Paper. Please note that these comments are the views of PSAB staff and not those of the Public Sector Accounting Board (PSAB). If you have any questions relating to this response please contact Martha Jones Denning at martha.denning@cica.ca.

Yours truly,



Tim Beauchamp
Director
Public Sector Accounting

Appendix ADetailed PSAB Staff Comments on Consultation Paper**1. Objective of LTFSR**

The objective of Long Term Fiscal Sustainability Reporting (LTFSR) needs to be precise. The larger goal is to provide useful information to users of general purpose financial reports (GPFRs) for accountability and decision making. However, more precisely, the objectives of LTFSR are the provision of information:

- (a) to allow users to assess the future viability of programs and services,
- (b) to assist users in understanding the impact on a financial condition and the potential implications on future operations of current programs and services,
- (c) external to the financial statements that is needed to supplement and add further depth to financial statement indicators.
- (d) that provides insights into the short-term and long-term implications of past and potential policy decisions on future revenue requirements of the government, and
- (e) to provide a basis for comparison with other similar jurisdictions.

2. Terminology - “financial condition” and “fiscal sustainability”

It would be helpful if there was precision regarding the definitions and descriptions of “financial condition” and “fiscal sustainability”. The confusion in the document likely arises because the document includes a review of the various international initiatives in this area. The development of a glossary for the exposure draft that follows on this topic will be important to ensure that all readers have the same understanding of these terms. Some of the paragraphs where we have observed inconsistencies regarding these two terms include:

2.5.2

This paragraph explains the relationship between “financial condition” and fiscal sustainability”, stating that fiscal sustainability information is part of an assessment of financial condition.

[We agree.]

The paragraph also notes that “a complete assessment of the Government’s financial or fiscal condition requires analysis of historical results, projections of future revenues and expenditures, and an assessment of the long-term fiscal sustainability of programs and services.”

[We agree but feel that assessing the government's vulnerability and flexibility are also a part of assessing its financial condition. Paragraph 5.3.6 of the CP references the 1996 CICA study upon which SORP -4 is based and talks about the importance of "vulnerability" as an indicator of sustainability. See discussion of this paragraph below. "Flexibility" speaks to the degree to which a government can change its debt or tax burden to meet its financial and service commitments. The idea of meeting obligations within the existing tax burden is mentioned in Exhibit 9 of the CP relating to Australia's Intergenerational Report and also in paragraph 5.3.1 regarding Schick's four dimensions of fiscal sustainability. See discussion of this paragraph below.]

3.1.3

This paragraph notes that "The Financial Report also includes a Citizen's Guide, "The Federal Government's Financial Health" that provides a broader narrative summary of financial condition (a prospective notion) and financial position (a current notion)."

[We do not agree that financial condition is only a prospective notion if that phrase means that it deals only with the future and does not include the government's current financial health as a result of past transactions, events and policies. Financial condition is a much broader concept than financial position and thus the distinction between them is not a question of future versus current focus. Both financial condition and financial position can be assessed at the financial statement date. However, financial position is solely a financial statement indicator, normally calculated as assets less liabilities. Financial condition goes beyond the financial statements, even though some indicators of financial information may relate financial statement information to economic information. Financial condition is a broad, complex concept with both short- and long-term implications that describes a government's financial health in the context of the overall economic and financial environment.]

5.3.1

This paragraph states: "In considering approaches to the disclosure of information in narrative reporting, the conceptual framework developed by Schick is useful. He puts forward four dimensions of fiscal sustainability

Solvency: the capacity of governments to finance existing and probable future liabilities/obligations;

Growth: the capacity of government to sustain economic growth over an extended period;

Fairness: the capacity of government to provide net financial benefits to future generations that are not less than the net benefits provided to current generations; and

Stable taxes: the capacity of governments to finance future obligations without increasing the tax burden.

The dimensions of solvency and fairness are similar to the notions of fiscal capacity and service capacity developed in the GASB project discussed in Section Four."

[We have issues with the dimensions of "growth" and "fairness". In terms of "growth", our issue is that economic growth is not wholly under the control of government and the description in paragraph 5.3.1 suggests that it is.

Regarding the inclusion of "fairness" as a dimension of sustainability our issues are:

- *The achievement of "fairness" is in the eye of the beholder.*
- *Quantifying the achievement of "fairness" will be problematic even when the benefits to be assessed are financial.*
- *"Fairness" is seen to be achieved when future and current benefits are balanced. No consideration is thus given to the fact that the current generation may be paying for benefits enjoyed by past generations.*

We do agree, as stated in CP paragraph 1.2.3 that failure to address long-term issues in a timely manner may force future governments to adopt policies, whose cost to the future population will significantly exceed the costs borne by taxpayers today, and that a failure to address long term fiscal pressures may weaken the ability of governments to respond to other, less predictable future problems (such as climate change). So the concept of "fairness" is not irrelevant to an assessment of long term fiscal sustainability (LTFS) but it is difficult to make the concept operational.

We also agree with the dimension of "stable taxes" as this dimension is comparable to the idea of flexibility in SORP-4. See discussion of CP paragraph 5.3.6 below.]

5.3.6

This paragraph states: "The approach to reporting on long-term fiscal sustainability therefore needs to reflect the entity's fiscal powers, economic status and other specific circumstances. For example, the extent to which an entity is fiscally dependent upon the taxation policies of a higher level of government is likely to be an important indicator. Its importance lies in its illustration of the extent to which

the maintenance of current service provision and the ability to meet financial obligations are dependent on the decision of other entities. A 1995 Canadian Institute of Chartered Accountants (CICA) report, "Indicators of Financial Condition" defined the term "vulnerability" to denote the degree to which a government becomes dependent on, and therefore vulnerable to, sources of funding outside its control or influence, both domestic and international."

[We agree that vulnerability is an important aspect of financial condition and that indicators of vulnerability should be considered in the IPSASB project. SORP-4 includes the following definitions:

Sustainability is the degree to which a government can maintain its existing financial obligations both in respect of its service commitments to the public and financial commitments to creditors, employees and others without increasing the debt or tax burden relative to the economy within which it operates.

Flexibility is the degree to which a government can change its debt or tax burden on the economy within which it operates to meet its existing financial obligations both in respect of its service commitments to the public and financial commitments to creditors, employees and others.

Vulnerability is the degree to which a government is dependent on sources of funding outside its control or influence or is exposed to risks that could impair its ability to meet its existing financial obligations both in respect of its service commitments to the public and financial commitments to creditors, employees and others.

Although they are stated as separate dimensions for evaluation in assessing a government's financial condition, we could live with flexibility and vulnerability as aspects to consider (or variables) when assessing a government LTFS. Excessive vulnerability to funding from others may impair a government LTFS. And governments with more flexibility might be more sustainable in the long term than governments with little or no flexibility.]

7.5.2

This paragraph states: "Consequently, entities can take a range of approaches to enhance their reasonableness and realism. Currently, publicly reported projections are subject to formal audit assurance only in the US. At the US federal level, the Statements of Social Insurance (SOSI) have been principal financial statements in the Financial Report of the US Government since 2006. The SOSI provides estimates of the financial condition of the most significant social insurance (contributory entitlement) programs of the federal government, principally most parts of Medicare and Social Security."

Further, an exhibit included in the CP states:

“Exhibit Eleven

US Government Accountability Office Opinion on Statement of Social Insurance

UNQUALIFIED OPINIONS ON THE STATEMENTS OF SOCIAL INSURANCE
FOR 2008 AND 2007

In our opinion, the Statements of Social Insurance for 2008 and 2007 present fairly, in all material respects, the financial condition of the federal government’s social insurance programs, in conformity with GAAP.”

[We believe that the financial condition of social security programs is dependent on the financial condition of the government that provides them and are unsure of how the financial condition of such programs can be evaluated separately unless they are substantially funded from sources other than the government (which may be the case for the programs in Exhibit 11 in the CP). This is just a question rather than a statement because the above report indicates that such financial condition assessments of programs obviously are made. Perhaps the exposure draft that follows this CP could address how the financial condition of programs are, and/or when they would be, assessed independently of the governments responsible for the programs.]

3. Paragraph 1.2.3 - Inter-period or inter-generational equity

This paragraph states: “Long-term fiscal sustainability has been linked to the concept of inter-generational equity or fairness, which evaluates the extent to which future generations of taxpayers will have to deal with the fiscal consequences of current policies. The concepts of intergenerational efficiency and effectiveness are also relevant. Intergenerational efficiency highlights the risk that failure to address long-term issues in a timely manner may force future governments to adopt policies, whose cost to the future population will significantly exceed the costs borne by taxpayers today. Intergenerational effectiveness highlights a further risk that the failure to address long term fiscal pressures may weaken the ability of governments to respond to other, less predictable future problems. Such future problems may perhaps relate to environmental factors, such as climate change and the degradation of natural resources.”

Paragraph 5.3.1 also addresses this idea of “fairness” being part of fiscal *sustainability*.

[We agree that failure to address long-term issues in a timely manner may force future governments to adopt policies, whose cost to the future population will significantly exceed the costs borne by taxpayers today, and that a failure to address long term fiscal pressures may weaken the

ability of governments to respond to other, less predictable future problems (such as climate change). So the concept of "fairness"/ "inter-generational equity" is not irrelevant to an assessment of LTFS but it is difficult to make the concept operational.

Although it is stated that financial reports should provide information for accountability and decision-making, a third reason is alluded to in this CP. This concept was removed from the CP for Phase I of the Conceptual Framework project but is brought in again here as a part of fiscal sustainability. The idea is that financial reports (likely government financial reports in particular) should provide information about whether inter-period equity has been achieved and its impact on the government's long term sustainability. We feel that the IPSASB needs to examine the concept of inter-period or inter-generational equity and its role, if any, in GPFS and GPFs before it is incorporated into any IPSAS or other guidance issued by the IPSASB.

GPFS: The emphasis in the Canadian framework is to ensure that the full cost of services in the accounting period is reflected in the financial statements and that the full extent of a government's revenue raising for the period is reflected in the statements. The question of cost recovery is a policy question and the standards do not presume that this is an objective in any particular year. The extent of taxation and other revenue raising in a particular year is a public policy decision. The financing of government activities is not an accounting decision. The financial statements report the full extent of the government's revenue raising in the year, the full cost of services provided in the year, whether the government is maintaining its net assets in a particular year and the impact of the year's activities on the government's net debt as well as cash flow. Cost recovery is not an objective of the required financial statements in the PSA Handbook, and it is questionable whether such an assessment is possible at the high summary level of the financial statements.

At the whole of government reporting level, a cost recovery objective may be seen as requiring inter-generational or inter-period equity. Some argue that financial statements can provide information about whether inter-generational or inter-period equity has been maintained. And, balanced budget requirements and the matching of revenues and expenses are often seen as integral to maintaining such equity. If users say that they want inter-period equity, they mean it only in the simplest sense. And, they tend to mean not passing on a burden to their children - they don't consider that they might be paying for benefits received by past generations. Most discussions of inter-period or inter-generational equity are future-focused.

Inter-generational equity or even inter-period equity may be good concepts in theory but are very difficult to achieve in practice. And again, a decision to manage government finances in order to achieve "inter-generational equity" or inter-period equity is a policy decision, not an accounting one. The financial statements cannot provide an assessment of whether this is achieved, nor should accounting

standards make the assumption that this is government's intention. In particular, assessments of such equity would go way beyond the operating statement of a government. Full information about the costs of services provided in a particular year might be good input into such an assessment and the extent to which a government is maintaining the net resources it needs to continue to provide services might also be good input information. But financial statements merely present a picture of what happened financially during the year (statement of operations, statement of change in net debt, statement of cash flow) and what resources/liabilities remain at the end of the year (statement of financial position). In Canada, government financial statements have a financial capital maintenance concept (in monetary terms - i.e., not adjusted for changes in purchasing power), which at most, tells users whether the government has maintained its net assets in financial terms after the activities of the accounting period have been taken into account. Good robust financial statements provide only part of the accountability picture for governments. Assessments of policy achievement and "inter-generational equity" or "inter-period equity" are beyond the scope of financial statements.

GPFs: However, such assessments might not be beyond the scope of broader government accountability reporting. If the IPSASB believes that assessment of inter-period equity is an objective of financial reporting (all financial reporting in the public sector not just governments) then it should explicitly address how and where such an assessment might be provided. Is LTFSR the right place? This inclusion is implied by paragraphs 1.2.3 and 5.3.1. Any exposure draft that follows this CP should discuss this issue explicitly and the IPSASB should take a reasoned, fully explained position on the issue. Is such an assessment an integral part of LTFSR?]

4. Making LTFSR understandable to Users

Indicators vs. Projections

There seems to be some confusion in some areas of the text (for example - please compare PV 4 and PV 5) between the use of the term "indicators" and projections". Will LTFSR include both indicators and projections? The discussion around projections seems to deal with inflows and outflows. The text around indicators describes some of those used by governments internationally. The Executive Summary deals with both and implies that the long term goal is to include projections in additional statements in GPFs but that indicators and discussion in narrative reporting is more realistic in the short term. PV 4 then deals with indicators and PVs 5 and 6 deal with projections. More clarity regarding the intentions and timeline are needed here. The PVs imply that both indicators and projections would be expected at the same time. The Executive Summary states that indicators would be done first and then later projections would be included.

Projections based on Current Policies vs. Expected Policies

The CP notes that projections based on current policy will be the most relevant and understandable to users. We agree, but would add that some sensitivity analysis around factors not controlled by the government, such as some economic variables, should supplement projections based on current policy. That sensitivity analysis should show the impact of a change in one variable at a time if that is practicable so that the effects of changes are more easily understood.

The CP allows assumptions underlying the projections to be changed from current policy as long as they are accompanied by sensitivity analysis showing how material modifications in policy affect projections. We feel that this is too flexible an approach. If assumptions are made about changes from current policy then there should be some requirement that these changes be the “most probable” and that there be evidence to support this assertion. Anything else is more akin to a feasibility study rather than a projection. Both Canadian sources, Section 4250 and the 1976 study mentioned on page 3 of the covering letter, require that the assumptions reflect most probable future scenario(s). We also feel that it is inappropriate for a government to project changes in government policy beyond their expected term of office. Projections of any changes in government policy beyond that date would be pure conjecture.

If assumptions can be changed too easily, then the credibility of the reporting will suffer in the eyes of users.

One final observation is that PSAB constituents have resisted presentation of prospective information based on existing government policy. Likely, this resistance is based on the view that policy decisions are the purview of the legislature. Financial reports are seen as accounting documents and budgets as policy documents. So, the inclusion of prospective information in GPFs that are based on current government policies may be seen as pre-empting the democratic process of parliaments to debate and set or change existing or future public policy. And, there may also be concern with GPFs including prospective information based on assumptions about policy changes (even if there is evidence that they are “most probable”) because the legislature will not yet have made the related policy changes. This final observation is just that - an observation. We have no suggestions as to how to address this resistance in Canada. Nor can we provide any insight as to whether similar resistance will be experienced in other jurisdictions.

5. Comments on Preliminary Views not addressed in Covering Letter

Preliminary View 4

- The IPSASB should consider proposing some common indicators that would apply to all national governments. The Board should

also consider suggesting indicators that would apply to all governments. Leaving the field completely open is too subjective. The exposure draft to follow the CP may want to propose minimum indicators of fiscal sustainability. This guidance would reduce the risk that the inherently subjective process of assessing financial condition excludes key data that could materially influence a user's perception of a government's LTFS.

- In addition, we feel that allowing an indicator to be chosen or rejected based on the government's subjective assessment of whether it contributes to their ability to describe the scale of the fiscal challenge facing the government is also too flexible an approach. We suggest that more rigour is required in order to have some comparability between jurisdictions.
- We agree that comparative information should be provided.
- We agree that reasons for ceasing to report indicators should be disclosed.

Preliminary View 5: Agree but see our comments regarding "Making LTFSR Understandable to Users" above.

Preliminary View 6: Agree but see our comments regarding "Making LTFSR Understandable to Users" above.

Preliminary View 7: Agree.

6. Other Comments

Paragraph 2.4.1: We believe that there is some risk in even implying that future tax revenue streams could be recognized as assets.

Paragraph 3.1.9: Users in many jurisdictions are unfamiliar with LTFSR now but familiarity will grow as governments continue to experiment with providing it. We see the IPSASB's role as one of providing guidance with some rigour that will require governments to ensure that the link to GPFS, budgets etc. is clear and ensure that there is some consistency and comparability in the information reported. As noted in the covering letter, we believe that LTFSR should start with a base assessment of the financial condition of the government at the financial statement date. That reporting will include indicators of financial condition similar to those set out in SORP-4, which include:

- (a) government-specific indicators – indicators about government finances derived from its financial statements;
- (b) government-related indicators – indicators about government finances derived from a combination of information from its financial statements and from the economy within which the government operates; and
- (c) economy-wide information – data about the economy within which the government operates that has a direct impact on the financial condition of the government.

With this as a base, the link to the financial statements would be clear. If planned and actual indicators are compared in the report as well, then a link to the budget may also be feasible. Future oriented indicators and projections could then be built from and linked to this base reporting.

Paragraph 3.1.12: Simply including references to separate reports on LTFS would not meet the qualitative characteristics of financial reporting and thus would not achieve the objectives of GPFRs.

Chapter 5: Canada's SORP-4, Indicators of Financial Condition, and the reporting of financial indicators in the reports of governments and the reports of legislative auditors in Canada is not referenced in this Chapter.

Paragraph 5.3.4: Canada's SORP-4 recognizes that a local government's taxable assessment base would serve the same role as GDP as an economic denominator in many indicators of financial condition such as the following sustainability indicators set out in SORP-4:

- (a) net debt-to-GDP or taxable assessment;
- (b) accumulated deficit -to-GDP or taxable assessment; or
- (c) total expenses-to-GDP or taxable assessment.

Paragraph 5.4.3: We agree that trend information is important. Indicators for individual years reported without context are not very meaningful to users. For this historical "base" information, trend reporting might include the following:

- (a) Comparative information can include a trend analysis where the actual results for the current period are compared against the actual results for prior periods. Trend data over multiple periods provides information that enhances discussions about the eventual consequences of policy decisions.
- (b) Including at least five years worth of historical trend data would help put short-term anomalies into context and present results that may reflect the actions of more than one government. Governments that choose to report less than five years worth of trend data would include an explanation for selecting the shorter period.

Similar reasoning would justify reporting of the profile of indicators across time for future oriented information.